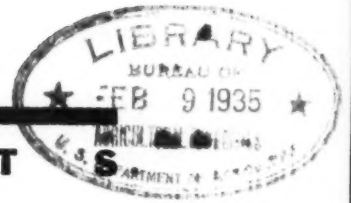


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Appraisal of Citrus Lands

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Long Term Leases

Single Family Homes

Office Building Expense

Effect of Credit and Production on Prices

A New Approach to Rural Appraising

**VOL. III, No. 2**

**JANUARY, 1935**

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**The JOURNAL of the**  
**AMERICAN INSTITUTE OF**  
**REAL ESTATE APPRAISERS**  
*of the National Association of Real Estate Boards*

K. Lee Hyder, *Editor-in-Chief*  
Harry Grant Atkinson, *Managing Editor*

Volume III

January, 1935

Number 2

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### STATEMENT OF THE OWNERSHIP, MANAGEMENT, CIRCULATION, ETC., REQUIRED BY THE ACT OF CONGRESS OF MARCH 3, 1933

Of The Journal of the American Institute of Real Estate Appraisers of the National Association of Real Estate Boards, published quarterly at Chicago, Illinois, for October 1, 1934.  
State of Illinois,  
County of Cook, } ss.

Before me, a Notary Public in and for the State and county aforesaid, personally appeared Harry Grant Atkinson, who, having been duly sworn according to law, deposes and says that he is the Business Manager of the Journal of the American Institute of Real Estate Appraisers and that the following is, to the best of his knowledge and belief, a true statement of the ownership, management (and if a daily paper, the circulation) etc., of the aforesaid publication for the date shown in the above caption, required by the Act of August 24, 1912, embodied in section 411, Postal Laws and Regulations, printed on the reverse of this form, to wit:

1. That the names and addresses of the publisher, editor, managing editor, and business managers are: Publisher, American Institute of Real Estate Appraisers, 59 E. Van Buren St., Chicago, Ill.; Editor, Joseph B. Hall, 35 E. 7th St., Cincinnati, Ohio; Managing Editor, Harry Grant Atkinson, 59 E. Van Buren St., Chicago, Ill.; Business Manager, Harry Grant Atkinson, 59 E. Van Buren St., Chicago, Ill.

2. That the owner is: (If owned by a corporation, its name and address must be stated and also immediately thereunder the names and addresses of stockholders owning or holding one per cent or more of total amount of stock. If not owned by a corporation, the names and addresses of the individual owners must be given. If owned by a firm, company, or other unincorporated concern, its name and address, as well as those of each individual member, must be given.)

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Sworn to and subscribed before me this 24th day of September, 1934.

CLEMENT V. WARD.

(My commission expires February 13, 1937.)

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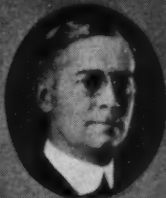
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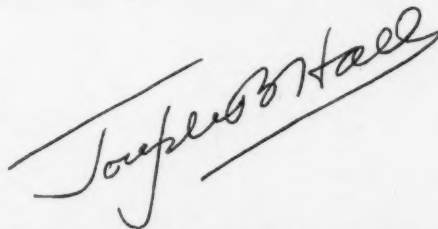
\*1934 officers are listed here since elections of 1935 officers were held after this issue went to press.

## An Appreciation and a Responsibility

Two and one-half years have passed since the Institute came into being at Cincinnati; two and one-half years of progress—with an accelerating increase in Membership strength. But numbers alone mean nothing. Progress in its sphere of influence is demanded of a professional society. Progress we have made—the Journal, our meetings, advancement in appraisal thought.

Through all this period, there has been not only a guiding hand but a directing force. We have been beset with obstacles at times almost insurmountable; but personal determination and effort have carried us onward and upward. His leadership in name has culminated but his influence will continue on. Our sincere appreciation is extended to Philip W. Kniskern.

His term has ended. A new term begins. With it comes responsibility — the responsibility of continuing the high standards that have been attained. Standards are not alone the pronouncements of the official body. More important, they are the expression of the ideals of the Organization as exemplified by its Members in their daily activities. We must all assume this personal responsibility. Let us maintain the Institute in its present enviable position.

A handwritten signature in cursive script, reading "Joseph B. Hall", is written over a single horizontal line.

President American Institute of Real Estate Appraisers, 1935.



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# Looking Ahead!

*The following articles now in preparation will appear in this Journal in subsequent issues:*

The Relation of Profit to Value  
The Effect of the New Deal on  
Real Estate  
Depth Tables  
The Management Factor  
Analysis of the Competitive Factor  
The Place of Buildings in Farm  
Real Estate Valuation  
Condemnation Appraisal Procedure  
Appraisal of Trees and Shrubbery  
The Influence of Special Assessments on Home Values  
The Influence of Special Assessments on Farm Values  
Neighborhood Factors in Appraising Outlying Business Property  
Neighborhood Factors in the Appraising of Homes  
The Appraisal Report  
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Work Sheet for Use in Appraising Homes  
Alley Influence  
Rules of Professional Ethics  
The Treatment of Depreciation

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*The JOURNAL of the*  
**AMERICAN INSTITUTE OF**  
**REAL ESTATE APPRAISERS**  
of the National Association of Real Estate Boards

Volume III

JANUARY, 1935

Number 2

## The Capitalization Process

By AYRES J. DU BOIS, M. A. I.

**O**BJECTIONS have been raised to the use of the capitalization method because no rate of capitalization which may be chosen can be regarded as indisputably correct. While this is true, it is also true that this admission is not an argument against the use of the capitalization process in valuation work, for we find that *all* methods resorted to as appraisal aids necessitate the drawing of conclusions about which there is and always will be plenty of room for dispute.

For example, if we consider the commonly used appraisal method whereby comparisons are made between properties in order to rate them as to their relative desirability, etc., and the value of one of them is fixed by considering sales prices paid for the others, there could be dispute as to the ratings of comparative desirability, the intelligence displayed by the various buyers and sellers involved in the sales transactions, and numerous other matters. If depth tables or corner influence tables are used in making comparisons, ample ground for dispute exists as to the applicability in the specific case, of the particular depth or corner tables utilized.

It is probably true to say that there are a very great many disputable conclusions drawn, or assumptions made, in every ap-

praisal report, regardless of the methods resorted to. But that is not of great importance, for disputes are common in all fields of human knowledge and activity. It is important to see that the net return which the appraiser estimates may reasonably be anticipated is a fair rate of return upon the appraised value. The fairness of the rate will be agreed to or not according to the facts and the potency of the reasons advanced by the appraiser in support of his opinion, but the matter can hardly be removed from the realm of disputability.

Another objection which has been raised is that small variations in the capitalization rate cause substantial variations in the resultant capitalized value, and that widely differing conclusions may also be reached should changes be made in income and expense estimates, which estimates are rightly designated as "hypotheses." But are these evidences of "sensitivity," which admittedly are characteristic of the capitalization process, to be regarded as proving it to be vitally defective? Here again I think the answer should be "no." These characteristics simply indicate that the process is responsive to careful judgment in applying it, and more exactness in valuation opin-



ions is thereby made possible. Any refinement of method in appraising, or manufacturing, or other human activities, will necessarily result in greater sensitiveness and responsiveness to the skill or judgment of the practitioner or operator.

As to the "hypotheses," is it not true that there never was an appraisal made which did not involve the making of hypotheses, whether the capitalization, or some other method was used? Valuations simply cannot be made without resort to assumptions or hypotheses, because "value" is a thing dependent on future occurrences which by their very nature cannot be positively foreseen. Indeed, the very "unknowableness" of the future forces acquiescence in the use of and acceptance of certain devices which appraisers must use, such as the making of estimates of what is *most likely* to occur in the future, and the use of these estimates as substitutes for that which is unknowable—the future itself. This involves not only the setting up of estimated incomes and expenses, which are hypothetical in their character, but also the choice of capitalization rates which themselves are hypothetical in every instance because of the presence of the assumption, though hidden, that the chosen rates when applied will truly reflect the opinion of fair value which would be agreed to by that hypothetical and idealistic entity—the perfectly enlightened buyer who *knows* the future, the future net benefits, and, therefore, the fair value of the property appraised. Here again we see emphasized the fact that real estate appraising is not and cannot be an exact science, and that appraisal methods cannot *themselves* determine or prove value, but can merely determine limits within which the appraiser's opinions must lie if they are to be

accepted by reasonably-minded and enlightened people.

#### BUILDING EARNINGS

Another point which has been raised is that since in a certain case the appraiser used a 6% capitalization rate for imputed land earnings, and 8% (a higher rate) for building earnings, therefore as the building grew older and older its value would decline, and less and less of the total net earnings would be properly imputed to it, and the land value, being a capitalization of *residual* net earnings, would, ipso facto, become greater and greater because of increased residual net earnings and the capitalization of these increases at 6% (the land rate) instead of 8% (the building rate).

This criticism is, I believe, merely one directed at the process as it was applied in the particular case, although the application as here illustrated is quite common. The criticism properly applies because the assumption is made by the appraiser that for 32 years the net earnings of the building will be a *level*, rather than a *declining*, annual sum of a certain amount. This means that the assumption is made that although the building becomes less valuable year by year, nevertheless the total net earnings of the entire property will not be lessened on that account; and since the imputed land earnings are, in the appraisal, made residual in character, therefore land earnings will increase (entirely aside, be it noted, from enhancement of earning capacity from other causes), and land value must also increase.

The defect is apparent; it can be remedied by altering the estimate of imputed building earnings so that the latter will decline harmoniously with the probable decline in building value. The criti-

cism should also direct attention to the question, "Should not building earnings be made residual in cases involving other than comparatively new structures?" It would seem to me the answer should be "Yes."

In many appraisals assumptions are often made by implication that the building value has declined in a straight line in the past but that in the future the decline will be in the form of a curve reciprocal to one representative of the accumulations in a 6% sinking fund. These assumptions are inconsistent with each other, although it is not uncommon to see them made in appraisals every day.

The suggestion has been made numerous times that in using the capitalization method since provision is made for all known expenses and for amortization of building value as well, why would it not be proper and logical to use a single rate of capitalization for *all* net earnings, both of land and building instead of using "split" rates. This suggestion can be agreed to providing the rate chosen fairly represents a proper "over-all" capitalization rate for the property. This opens up a big subject, and one upon which several writers in the Journal have from time to time expressed views.

Messrs. George L. Schmutz, M. A. I., and Loring O. McCormick, for example, in the Journal (April, 1933) take the position that split capitalization rates are "dangerous" and should "never be used unless they have been . . . calculated" after an "over-all" rate has been determined and applied in a given case. This is debatable ground, in my opinion. Mr. Philip W. Kniskorn, M. A. I. states emphatically in the same Journal that the "characteristics of each dollar of net income remain the same, whether it be allocated to land or to building, and for that

reason every dollar of net income regardless of allocation, must be capitalized at the same rate." This also is debatable if it is meant by this that it is improper to make use of the split-rate device.

I believe the last quoted statement is correct insofar as it refers to the valuation of *dollars*, for within the United States at least, a paper dollar is as valuable as a silver or gold one, and the *dollars* of net income produced at any one time and in one's possession actually, are all of equal value whether we say some are produced by land, by improvements on land, or by labor, industry, or in any other lawful manner. But is it not true that the appraisal problem is one of valuing the *hazards* attendant upon the production of estimated streams of net incomes, or, in other words, valuing the *ability* to produce *streams* of dollars, rather than the valuing of the dollars themselves. The appraisal of this *ability* to produce streams of dollars, involves determination of and appraisal of the *characteristics* of this ability. Some of these characteristics are:

1. Probable permanence;
2. Probable stability quantitatively;
3. Past span of existence and history;
4. Probable rating of desirability, present and future, by the public, in relation to a hypothetical ideal set of characteristics;
5. Probable ease of convertibility (by sale, etc.) into a capital sum;
6. Probable amount of labor, skill, and attention essential to preservation of the producing ability; and
7. Probability of changing to a higher or lower desirability rating in the future.

The appraisal of the characteristics of the *ability* involves comparing them with and rating them in the light of the characteristics of the dollar-producing abilities of other properties of the same or different types. Now there might be ten real estate properties each of which can be relied upon to produce \$750 of net earnings

in the next year; and the value of each \$750 may be the same because each dollar has the same characteristics as all the others; but this would not prove that the values of the ten properties were identical, nor would it prove that it was incorrect to value the ability of each property to produce a *stream* of \$750 yearly incomes by dissecting the factors which will produce the stream and applying to the dissected or isolated factors individual tests of valuation. That is what is done when "split" rates of capitalization are used.

Let us consider a vacant lot which has a certain estimated ability to produce net income, and is actually producing net revenue which may reasonably be expected to continue. Suppose the fair rate of capitalization is 6%. Now consider another property improved with a one-story commercial building and producing a net income equal to that of the vacant lot in the first case. The income stream, or producing ability, possesses the same characteristics in each case except that in the one, capital in the form of a building is a factor in producing the income, while this factor is not present in the other. In a third, fourth, fifth, and so on, instance we have the same situation except that a more expensive building adorns the land in each case. You will note the premises: the net incomes are the same in each case, and the income producing ability characteristics are identical except as to the variations due to the presence of buildings of differing costs. Such conditions exist in actuality. Now in Case 1 the net income comes only from land; in

the others from combinations, in varying proportions, of land and buildings; but the total net income in each case is the same.

The value of the land in each case is, of course, progressively smaller and smaller; and the fair over-all rate of return progressively greater and greater, for as the building investment increases, the earning-ability characteristics of the properties change in a direction which causes less and less favorable ratings as compared with the ideal. The circumstances are somewhat analogous to those which would prevail in a boiler if it were subjected to greater and greater steam pressure: the hazards of a blow-up increase with the pressure. So with real property: of land and building, the continued usefulness of the land is more certain than that of the building, for buildings are subject to depreciating influences which may not affect land; and even though a building becomes totally obsolete and useless, the land may still be devoted to other purposes. Therefore, as a general thing, as the ratio of building investment to land becomes greater and greater, certain characteristics of the income producing ability of the entire property require lower and lower ratings, and larger and larger over-all capitalization rates would fairly apply. This would be illustrated by revising the Schmutz-McCormick tabulation on page 240 of the April, 1933 Journal to read as shown in Table I.

The tabulation in Table I would indicate the following returns for "Creditor" and "Debtor" positions on the basis outlined

TABLE I

Case	Total Investment	Net Income	Over-all		Land		Building		
			Rate	Value	Rate	Income	Value	Rate	Income
1	\$10,000.00	\$950.00	9.50%	\$2,500.00	8.00%	\$200.00	\$7,500.00	10.00%	\$750.00
2	\$10,000.00	750.00	7.50%	5,000.00	6.00%	300.00	5,000.00	9.00%	450.00
3	\$10,000.00	625.00	6.25%	7,500.00	5.50%	412.50	2,500.00	8.50%	212.50

in the Schmutz-McCormick discussion:

Case

- 1—Creditor position 6%—Debtor position 13%
- 2—Creditor position 6%—Debtor position 9%
- 3—Creditor position 6%—Debtor position 6.5%

However, I propound the questions:

1. Why should the Creditor's position in three such cases take the same rate?
2. Would not a 50% loan be better in Case No. 2 than in No. 1, and best in No. 3, where the land value is greatest and the characteristics of the income producing ability most desirable?

If the second question is answered affirmatively, and I think it should be, then the tabulation of Creditor's and Debtor's positions would be as follows:

Case 1			
Creditor's position			7%
Land	\$2500 at 7%—	\$175	
Building	2500 at 7%—	175	
	\$5000 at 7%—	\$350	
Debtor's position			12%
Building	\$5000		
Income	500 or \$5000 at 12%		
Case 2			
Creditor's position			6%
Land	\$5000 at 6%—	\$300	
Debtor's position			9%
Building	\$5000 at 9%—	\$450	
Case 3			
Creditor's position			5.5%
Land	\$5000 at 5.5%—	\$275	
Debtor's position			7%
Land	\$2500 at 5.5%—	\$137.50	
Building	2500 at 8.5%—	212.50	
	\$5000 at 7% —	\$350.00	

This tabulation indicates the varying desirability of the creditor's and debtor's position under different conditions, and reflects the consequent possibility of obtaining 50% loans at different interest rates. Of course, the percentages are

merely illustrative of general principles, and are not to be taken as representing exactly correct ratios between each other; but it is certainly my opinion that the property in which the building investment forms a small portion of the total value is a better risk than the one of equal value in which the building represents a greater portion, other factors being equally rated.

Now considering these tabulations, I ask the question: "Do you think it more practical to select an over-all rate first, or to calculate it as a result of using split-rates?" If the principles advanced above are correct, and we take a lot of a given value and assume buildings of varying values are erected upon it, then the over-all rate will change with every variation in building investment. For example, examine the tabulation in Table II.

It certainly is not possible, as a first step in capitalization, to determine over-all rates to a fineness of 1/10th of 1%, yet the use of split-rates in multiples of 1/2 of 1% results in over-all rates which may be expressed in hundredths of 1%. All are aware that bonds are frequently advertised and bought at prices which result in net returns that are indicated in hundredths of 1%; and there is nothing wrong in expressing over-all returns of real properties with such fineness; but they cannot be determined so finely except as a resultant of other calculations of which they are the products.

It appears to me that it is more practicable to utilize split-rates of capitalization, and to test the reasonableness of the re-

TABLE II

Case	Land			Building			Total Income	Total Value	Over-all Rate
	Value	Rate	Income	Value	Rate	Income			
1	\$50,000	6%	\$3,000	\$22,500	7.5%	\$1,687	\$4,687	\$72,500	6.46%
2	50,000	6%	3,000	50,000	8.0%	4,000	7,000	100,000	7.00%
3	50,000	6%	3,000	60,000	8.0%	4,800	7,800	110,000	7.09%
4	50,000	6%	3,000	172,500	8.5%	14,660	17,660	222,500	7.94%



sultant over-all rate by means of one's judgment, rather than to follow the reverse procedure. It may be said, however, that either method can be used with propriety, but that keener discernment is necessary in selecting a proper over-all rate than in choosing split-rates, if equal precision is to prevail in each case, just as a more highly trained mind and judgment would be required to estimate the area of a field simply by looking at it rather than by determining the sizes and number of lots it contained. In other words, it is easier to measure the whole by measuring its parts, as by such procedure one can manage the required small measuring stick all by oneself and without difficulty.

Now while it is true, as has been said, that in the case of an improved parcel of real estate, the land and building are merged into a single producing unit, this does not prove that the net income produced by the unit cannot properly be dissected in the endeavor to find out and weigh the characteristics of the *ability* which produces this income. If a cup of water is added to a cup of salt, a solution of a certain salinity will result. If two cups of water are added, the saline strength of the liquid will be different; and this will be true as more and more water is added. Would it be improper to determine the salinity of the solution by investigating the quantities of salt and water which comprised it, and would it not, perhaps, be more practicable, and result in narrowing the possibilities of error in the conclusion, if it were determined in just that manner? My answer is "Yes," and I believe the same reasoning applies to the appraisal problem. You *might* be able in the case of an improved property to determine the characteristics of its income producing ability without

breaking it down into its "ingredients"—it is not impossible, but I am inclined to believe that by differentiating these ingredients and weighing them and rating them individually, a result will be obtained upon which more reliance can be placed in reaching a conclusion. Furthermore, I believe that such a method is more practicable today considering the general level of appraisal knowledge and intelligence to which we appraisers, as a group, have attained.

#### DISEQUILIBRIUM BETWEEN MAJOR FACTORS

Messrs. Schmutz and McCormick state that "the proper over-all rate . . . can be calculated by considering the disequilibrium existing between the major factors in production, as contrasted with a previous norm." There may well be some doubts as to the practical possibility of measuring such disequilibrium and deciding just what the "norm" is; because I believe that the complexity of the modern economic structure is such that it is humanly impossible to comprehend and weigh the effects of the innumerable forces and counterforces, actions and reactions, entering into this structure, except in a very general way, and certainly not to the extent that any great exactness can be dogmatically claimed in so doing. However, if it be granted that the quoted statement is true, then there must be exceedingly few well-qualified appraisers in the world, for how many persons have at hand the information and possess the intelligence and knowledge to determine the disequilibrium in major productive factors, and who is to decide what the "norm" is? Therefore, if we can not properly, and with relatively small danger, use split rates, the capitalization

process can be of very small practical aid to appraisers in general.

Differentiation has been made by some appraisers between a capitalization rate applicable to land alone when the buildings upon it have become exhausted, and one applicable to the earnings of the "land-and-building" unit prior to such time of exhaustion. Is this not an indirect endorsement of the use of split-rates and an acknowledgment that a capitalization rate may be properly applied to imputed land earnings, and that the total over-all rate is a modification of the land rate resultant from the modification of the land earning ability characteristics? It is admitted that the capitalization rate is an expression of the *quality* of income. Let us note, too, that just as the income is a resultant of a composite set of factors, which factors can be differentiated to a large extent, so also the over-all capitalization rate is a compound, the "ingredients" of which can also be isolated, and which therefore, can be determined by dealing with the ingredients.

#### PRICE CHANGES

It is stated that if the general price level changes up or down, over-all capitalization rates will also move up or down and in reverse direction to that of the price change. This is not to be understood as meaning that higher rates must prevail at lower price levels, and lower rates at higher levels. It is true that capitalization rates (or, in other words, rates of return on investments) become unsettled if prices become unsettled, and will not be stable as long as prices, or the expectations of the public with regard to prices, are unstable. Whenever comparative stability is reached at any price level, whether it be at a higher or lower level than at a previous time, capitalization

rates will settle back somewhere near their former levels, unless in the meantime, there has been a complete change in public viewpoints resulting in a lowering of rates of return on investments which are most nearly the ideal. In considering such matters, it might be well to take note of this point: The appraisal of fee simple estates in real property generally implies the assumption that ownership of the property appraised will be by one owner in perpetuity, so that short swing fluctuations (i.e., "short" in a "time" sense—and what are three or four years in comparison with forty or fifty?) may be of small importance, and no criterion as to the correctness of the appraised value.

#### EXACT VALUE

A just criticism of the use made of the capitalization process by some appraisers, and not infrequently in published model reports, arises from the practice of using the exact *capitalized* value, in so many dollars and cents (as, for example, \$292,152.16) as the fair value of the property appraised. This practice embodies the hidden assumptions that valuations can be exactly determined; that appraising is an exact science; that all figures of future incomes, expenses, upkeep, etc., can be exactly determined.

These assumptions are obviously incorrect in nearly all cases. Consider the valuation of \$319,669.93 reported in the April, 1933 *Journal* model report. This figure results from assuming an "average" yearly gross income of \$30,452; "average" annual expenses of \$10,113; and "average" annual land earnings of \$16,937.49. Take note that the "average" figures are what I will term "mathematical" averages, that is, averages obtained by adding several items together and

dividing the resultant sum by the total number of items.

Such "averaging" ignores the "time" factor which is present in all appraisal work. It is like saying that on a 6% basis, a series of incomes in consecutive years of \$1, \$2, \$3, \$4, and \$990 is as valuable as a series of \$990, \$4, \$3, \$2, and \$1, simply because the mathematical average of both series is \$200 per year. The first series, however, would be worth \$748.24, and the second \$841.97; and they would be equal to annuities, or what I call "actuarial" averages, of \$177.73 and \$199.99 respectively.

Thus, in the report mentioned, on a 6% basis, the equivalent level (or truly "average") annual sums would be: \$30,032 gross income instead of \$30,452; \$9,962 annual expense instead of \$10,113; and \$16,671 imputed land earnings instead of \$16,937; while the resultant capitalized land value would be \$277,850 instead of \$282,291, or a difference of about \$4,500.

Considering this, what shall we say of the reported valuation in dollars and cents? Can we afford the risk of bringing intelligent appraisal procedure into disrepute by practices which unwittingly, perhaps, pretend a degree of exactness and precision which is obviously impossible of attainment? There should be a discontinuance of the practice of reporting realty valuations down to the tens, units, or hundredths of dollars, or even in odd thousands in large valuations.

#### FORECASTS

There is a feeling that when appraisers set up schedules of future incomes and charges, they thereby prophesy what the amounts of those future items will actually be. That is not my belief about the matter. To me, such schedules are estimates of the probabilities of the future,

based upon the proviso that no future events will occur which at the time of appraisal are impossible of forecast.

Some coming events cast their shadows before, perhaps, but many do not. For example, today nobody knows whether or not United States currency will be inflated at such an *unremote* time as next month: if the appraiser could know today that such an event as currency inflation will take place, he could forecast increased benefits as expressed in monetary units; but since he can not positively know anything definite about this matter, he must predicate his opinion upon the assumption, expressed or implied, preferably the former, that our gold dollar will not be revalued, nor the currency inflated.

Of course, if the appraiser sets up a schedule of future events in the nature of income and expenses, and does not state the conditions assumed in choosing the respective amounts, he lays himself open to the charge that he has made an unqualified prophecy as to the quantitative character of future benefits, and he may find himself appearing ridiculous as time passes and his figures are upset by unforeseen, and "unforseeable" forces and happenings. However, I believe that the setting up of such schedules covering periods as long as definite events can reasonably be anticipated, tends towards greater accuracy; for it permits, as in the case of the use of split rates, of analyzing the whole expectancy by scrutinizing its parts.

If the schedule sets forth expected increases in the net earnings, the amounts of these *increases* over present net income should be subjected to higher capitalization rates than that applied to the present earnings; and these rates should become higher and higher as the increases become more and more remote from the



time standpoint. This idea is illustrated in Table III: using the schedule of expected net earnings reported in the appraisal in the April, 1933 *Journal*.

The figures in Table III reflect the assumptions that as compared with the certainty of receiving the present, or current, rate of net earnings of \$14,922 per year, the first increase is but 40% as certain, and therefore discounted 60%; the second increase 25% and discounted 75%; the third 16% and discounted 84%; and the final increase, anticipated 10 years hence, only 12% as certain and discounted 88%. The resultant capitalized value of \$254,764 is found to be equivalent to a 5.86% capitalization of current rate for net earnings (i. e., \$14,922); and therefore shows a favorable change of 14/100th of 1% below the 6% rate which (so we will assume) would fairly apply to the future land expectancy if it were level instead of increasing. This figure of 5.86% compares with 5.28% capitalization of the current rate of earnings to obtain the value of \$282,291 reported in the *Journal*.

Of course, the rates shown in this tabulation are somewhat arbitrary, although their direction of change does coincide with logical viewpoints and the observed effects of time elements on rates of investment returns. If such devices can be used in appraising where large amounts are involved, and I believe they have some

application as aids to conclusions, then such procedure is more practicable than to endeavor to adjust over-all rates to reflect all the certainties or hazards of the future, which over-all rate is to be applied to current net earnings. What does the reader think of this?

In conclusion, I might summarize the points made in this paper as follows:

1. Debatable assumptions are embodied in all appraisals regardless of what methods are utilized.
2. All estimates of the future, whether relating to incomes, expenses, population, or any other matters, are hypothetical.
3. Appraisal procedure is the estimating of probabilities, rather than the prophesying of actualities.
4. Imputed building net earnings should be in the form of declining curves because structures become less valuable as time passes.
5. It is proper to use "split" rates first, or "over-all" rates first; but the latter practice may require a degree of precision not practically attainable at our present stage of advancement.
6. Changing price levels probably exert only temporary effects on capitalization rates.
7. Valuations cannot be determined exactly; hence it is poor practice to report value in tens, units, and hundredths of dollars: to do so tends to bring all appraising into ridicule.
8. The "time" element should not be ignored in determining dollar averages in dealing with future estimates of incomes, expenses, etc.
9. Anticipated future increases in net earnings should not be regarded or treated as though they were as certain of receipt as the present scale of earnings, and may be valued by use of progressively higher capitalization rates as the certainty of their receipt decreases.
10. All appraisal methods are simply *aids* in valuation, and are of small worth if divorced from good judgment when they are applied.

TABLE III

	Rate	Value
\$14,922 per year in perpetuity, capitalized at.....	6%—	\$248,700
640 per year in perpetuity (\$15,562 loss \$14,922) deferred 4 years.....	12%—	3,392
60 per year in perpetuity ( 15,622 loss 15,562) deferred 6 years.....	15%—	173
1,140 per year in perpetuity ( 16,762 loss 15,622) deferred 7 years.....	18%—	1,983
640 per year in perpetuity ( 17,402 loss 16,762) deferred 10 years.....	20%—	516
TOTAL CAPITALIZED VALUE OF LAND EXPECTANCY .....		\$254,764

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# Appraising Single-Family Homes

By CHAS. B. SCHATTUCK, M. A. I.

**T**HE appraisement of the single family home appears to the novice to be the easiest and most simple of all valuation problems. Such, however, is not the case. Residential appraising is the most difficult and complicated of the valuation problems.

Residential property is so deeply involved with the human element that it presents a problem that is both economic and social in character. Residential property is like money in that we come in contact with it every day, we know what it is; and yet few people understand it, or can analyze the subtle influences to which it is subjected.

Single unit residential property is, as a rule, desired and owned solely for the use, comfort, enjoyment, and satisfaction it is able to render.

Income property, business property, and other real estate, on the other hand, is owned for the profit in the future benefits arising from its ownership.

Where profit is the objective of ownership it is possible by mathematical calculation to approximate what might be assumed to be the reasonable present fair value of the investment. The present worth of the estimated future net earnings is the only matter of real concern.

Where comfort and enjoyment are the expected future benefits, mathematical computations usually result in beclouding the judgment of the appraiser. Here we are concerned with the prejudices, ambitions, racial characteristics, and the customs of people.

To be sure, mathematics may be employed as an aid in residential appraising but solely as an aid. Of far more impor-

tance than mathematics is the actual experience and knowledge of the appraiser in home building, renting, and selling. In home appraising, as in no other type of valuation work, judgment—sound judgment—is absolutely indispensable.

When one contemplates the field of residential appraising, he sees almost as many types of single family homes as he does people. To measure the value of these homes he must measure the value of the people. Much careful and systematic investigation is required—for subtle and hazardous influences are constantly playing their part in building up or destroying the value of the home, just as they are the people within that home.

Nearly every conclusion the appraiser reaches is one that is a matter of his opinion only. Hence the appraiser must prepare as he proceeds with his work to defend and prove his opinions. Admittedly, the worth of an opinion of fair value can be no better than the investigation made, the data considered, and the reasoning processes by which the conclusion is arrived at. Every step the appraiser takes in appraising the single family home must be for the purpose of validating the premises upon which the conclusion is founded.

Many times I have been asked "What steps must be taken in order properly to appraise a single family residence?" I shall answer the question. A book could well be written on the subject. Space will only permit me briefly to outline those essential matters which the appraiser must consider.

First, he must consider himself. He must not be in a hurry. He must be will-

ing to work. He must use system. He must be patient, courteous, and exacting in his investigations.

Second, he must not assume; he must find out.

Third, he must not guess; he must know.

I make these statements for the reason that I have known many so-called real estate appraisers who assumed that the lot was "so and so" and guessed that the restrictions were "this or that,"—who stated they could appraise any home within five minutes and that their judgment never failed. What they should have stated is that they were too lazy to work, too indifferent to find out, and too careless to think. No single family home can be honestly appraised (no matter how experienced and competent the appraiser may be) without due consideration and investigation of:

1. The extraneous matters which are of public record.
2. The verification of the exact location of the property.
3. The buildings, their cost and their value.
4. The land.
5. The rental price the property can command.
6. The marketability.
7. The social aspects; and
8. The economic influences affecting the property.

#### THE EXTRANEOUS MATTERS WHICH ARE OF PUBLIC RECORD

The proper place for the appraiser to commence his work is at the public record. The official plats and record books will reveal much pertinent data, which while extraneous to the actual property, nevertheless, will to a very marked degree affect its fair value. Here secure:

1. The correct legal description of the property.
2. The correct house number, as same is officially assigned in connection with the legal description.
3. The duplicate of the official plat of the prop-

erty, depicting its exact location and the true dimensions of the land.

4. The easements, rights, and rights-of-way.
5. The deed restrictions, if any, as to building cost, use, and occupancy.
6. The zoning ordinances, if any, limiting the use of the property.
7. The building ordinances indicating the requirements as to construction.
8. The original building permits as to the date of construction, or remodeling, of improvements.
9. The assessed valuation of the buildings and land in the immediate neighborhood of the property appraised.
10. The current assessed valuation of the buildings and land appraised.
11. The current tax rate, both special and general.
12. The transfers of title which have recently taken place within the district.
13. The special assessment districts, if any, which may affect the property appraised.
14. The public school districts within which the property appraised is located.
15. The transportation and other public utility facilities by which the property is served.

These data should be chronologically arranged so that the appraiser upon going into the field can quickly check against it and verify the various items as they affect the property. To attempt field work without first having the above information is liable to result in seeing only a portion of the picture of the property. The whole picture is what the appraiser is after. He must not overlook any detail, no matter how small or how unimportant the same may appear to be.

#### THE VERIFICATION OF THE EXACT LOCATION OF THE PROPERTY

The careful verification of the exact location of the property appraised is the first concern of the appraiser upon going into the field. The exact location of the property can be definitely and accurately determined. There is no excuse for error at this point.

The numbers which are upon the house should be checked against those obtained from the official record to see that they

agree therewith. The appraiser should then prepare a plat showing:

1. The shape of the lot or lots; if more than one lot—the boundaries of each.
2. The dimensions of the lot or lots.
3. The width of streets and alleys.
4. The extent of any easements or rights-of-way.
5. The distance intervening from the corner of the nearest cross-roads (or some other prominent location point) to the boundary of the land appraised.
6. The general shape and location of each building upon the particular lot upon which same is situated.

When completed, this plat should be identical with the duplicate copy of the plat taken from the official record as to the measurements and distances shown.

In order still further to identify the property the appraiser should obtain a clear photograph of the main structure. At the same time he should also secure one of the street, depicting the adjoining properties and the character of the neighborhood. Upon the reverse side of each of these photographs the following certification should be written:

I hereby certify that this photograph was taken by me on (insert the date) that the house number and street name is (insert the house number and street name) in the City of (name) State of (name) that this building is on the (front, rear) portion of the lot.

.....  
Appraiser.

All of this work should be done with the idea in mind that at some future time some one might wish to use the report for the purpose of definitely locating the property. This, the report should enable one to do with ease.

#### THE COST AND VALUE OF THE BUILDINGS

The cost of a residence must be in complete harmony with the neighborhood standard-of-living, if its value is to be maintained at or near its cost of reproduction. A house which is too good or too poor for the people who might be expected

to use it will have a very wide range between its cost and its value. The appraiser is interested in cost—but only for the reason that it tends to indicate value.

Before the appraiser concerns himself about the present-day reproduction cost of the residence, he should endeavor to form a mental picture of the building in relation to its surroundings by asking himself the following questions:

1. Is the structure congruous with the surroundings?
2. Is the architectural appearance of the residence reasonably modern, or may the house be said to be architecturally obsolete?
3. Is the design of the exterior of the building in keeping with that of the other buildings on the same street? Is it such that it would be generally accepted as satisfactory by the people who might be expected to live in the neighborhood?
4. Is the building properly placed upon the lot?
5. Is there ample privacy from the street and the adjoining homes?
6. Is the size of the building comparable with others in the neighborhood?
7. Is the building in a fair state of repair and does there appear to be a "pride of ownership" about the whole exterior?

This mental picture is important, for it will have a decided influence upon the weight which the appraiser will assign to the presence or absence of other features in the structure.

The next step should be the examination of the foundation and underneath portion of the house. Careful note must be made of the height of the floor joists above the soil. This height should be not less than eighteen inches. It would be better if there were no soil within twenty-four inches of the joists. There should be at least two square feet of openings to the outside for each twenty-five feet of exterior foundation wall. Such construction is the only sure protection against dry-rot and termite infestation.

The examination of the underneath



portion should then be extended to include:

1. The load bearing characteristics of the soil;
2. The depth the foundation and footings are embedded in the soil;
3. The height of the foundation wall above the soil;
4. The strength of the foundation materials;
5. The presence or absence of cracks through the foundation wall;
6. The distance between foundation footings;
7. The sill—whether redwood?;
8. The under-pinning lumber dimensions and the manner in which the bracing is constructed;
9. The dimensions of the joists and intervening distance on centers;
10. The position of the super-structure upon the foundation—whether setting squarely upon same?;
11. The sub-flooring construction;
12. The basement—whether of ample depth, dry, and airy?;
13. The furnace, if any—whether serviceable and in good repair?;
14. The structural soundness of all underneath material as to the presence or absence of rot or termite damage, sagging, settling, etc.;
15. The condition of exposed or visible furnace pipes, plumbing, etc.;
16. The presence or absence of waste wood and form lumber beneath the house;
17. The condition of the soil beneath the structure—whether dry, damp, or wet?

Not a single one of these items may be overlooked; for it must be remembered that upon the foundation rests the super-structure. The house can be no better than its foundation.

The important features of the exterior of the house which should be carefully observed are

1. *The walls.* How constructed? Dimensions of the studding? Whether diagonally sheathed? Whether woodlath, metal-lath, wire and paper, rock lath, gyp lath, or what? The exterior wall covering or finish—whether brick veneer, maganassite, stucco, rustic siding, novelty siding, or what? If walls are of masonry—whether brick, concrete, adobe, rock, or what?
2. *The doors, windows and vents.* The number size, and the location of same. The trim and weather stripping. The flashing. The sash—whether metal or wooden? The grade of glazing. The doors—their character, material, type of hardware, and working condition. The style of screen and material and condi-

tion. The location of all vents and how covered. Check all working parts for freedom and ease in opening and closing.

3. *The porches.* How constructed? Whether properly drained? Their location, size, and exposure.
4. *The roof.* Type and how constructed? The dimensions of rafters, trusses, jack-rafters, and the bracing? The gables, dormers, hips, valleys, cut-up, flat, etc. The roof covering—whether shingle, shake (redwood or cedar) solid sheathed, composition (weight of material), gravel, tile, tile-trim, slate, etc.? The gutters and the location of the down-spouts?
5. *The paint.* The color, condition, and the probability of same continuing to protect the underneath materials from the elements. Water-proofing, brush-coating, etc.
6. *The garage.* Its location upon the lot. Car capacity. Ease of access. Type of doors and how hung. The floor. Interior wall finish—whether bare-studs, ceiling, plastered, or what? Special features such as pit, work bench, electricity, etc.
7. *The fences and other outbuildings.* How constructed? Their utility and appearance.
8. *The walks, driveways, curbs, and walls.* Whether concrete, brick, stone, wooden, etc.
9. *The garden.* Location of faucets, sprinkler heads, etc. Suitableness of plantings to the structure and the neighborhood surroundings.

The whole general condition and state of repair of the exterior must be carefully sized up, and the presence or absence of desirable or objectionable features allowed for.

The measurement of the square foot area of the structures is very important and is a necessary step prior to the estimation of the reproduction cost of the improvements.

In measuring a house for the purpose of ascertaining the ground area occupied, which is the gross floor area of the first floor, it is desirable to perform the work in that manner by which it can be accomplished with the least amount of time and effort. To attain this goal, it is necessary to systemize the measuring operation. The following suggestions will be found conducive to expediting the work:

1. Always move in a forward direction; never retrace your steps.
2. Commencing at any convenient corner of the

structure, measure the perimeter of the building, including insets and projections, to the nearest half-foot, traveling either clockwise or counter-clockwise, i. e., around the structure in either direction.

3. Commence at any convenient corner of the structure, or at such a point directly opposite the corner as will permit measuring that side without interference from shrubbery.
4. At the point of commencement, fix the tape by pushing an ordinary ice pick through the ring into the soil; then walk across (along) the side of the building, noting the distances to offsets and projections in the wall, and to the corner.
5. With these noted distances, and others similarly found in measuring the other sides around the building, and the second floor, if any, a sketch of the outside walls can be easily plotted.

Having completed the sketching on paper of the outside walls, the following procedure will be found practical in computing the floor area of structure:

1. Draw four straight lines on the sketch that will form a rectangle and include the outline of the structure. Each side of the rectangle will follow along one of the side lines of the building, and no part of the structure (except uncovered porches) will extend outside the rectangle.
2. Compute the area of this rectangle, by multiplying its length by its breadth, and from this area deduct those areas lying between the outside lines of the structure and the lines of the rectangle. This will leave the area enclosed by the walls of the building.
3. The gross floor area of the second story, if any, is computed in a like manner from its sketch.

The appraiser at this point is now ready to check over the interior of the home. These are the particular matters he should take note of:

1. *The Floor Plan.* The floor plan of a home is to the interior of the house what architectural appearance is to the exterior. While examining the interior of the house study the arrangement, size, and usable floor areas of the rooms in relation to hallways, doorways, windows, closet space, bathrooms, and in relation to each other. The arrangement of the rooms should be such as to insure adequate privacy within the home. The size of the rooms, the location of doorways and hallways (in the case of two-story houses—the stairway) should permit convenience and com-

fort in moving about the house. The windows should be so placed as to permit a maximum of wall space for the placement of furnishings and yet be of such design and size as to insure ample fresh air and sunshine within the home. The essential requirements of a good floor plan are:

- A. It must be comfortable;
- B. It must be convenient;
- C. It must be roomy;
- D. It must be private;
- E. It must be livable.

A poor floor plan is almost as fatal to the utility of the home as is a faulty foundation fatal to the physical aspects of the structure. Errors in home design are costly to correct; and, in most instances, cannot be corrected short of almost complete rebuilding.

2. *The Floors.* Upon entering each room note the type and grade of flooring. Is it o. p. maple, oak, tile, linoleum, or what? Is the floor in good condition and attractive? or is it worn, cupped, and creaky? Sound, solid, smooth, attractive flooring adds charm to the interior of any home. Note should be made in the case of two-story homes of whether there is sound-deadening material used in the construction of the sub-flooring.
3. *The Walls.* How are they constructed? What is the character of the studding? Are the walls sound proofed? What kind of lathing was used: button lath, wood lath, metal lath, plaster board, or what? What type and grade of plastering: hard-wall, keen-cement, interior stucco, or what? What is the finish: sand, jazz, tiffany, smooth, painted, calcimined, wall paper, sanitas, canvas, or what? The ceiling height of the room should be noted. The ceiling itself and the decoration of the entire room should be observed. Be on the look-out for cracking, bulging, settling, and other imperfections such as water stains in the ceilings or beneath window sill, etc.
4. *The Woodwork.* Observe next the interior trim such as paneling, wainscoting, window and door trim, baseboards, mouldings, etc. What kind and grade of woodwork is it; mahogany, quarter-sawed oak, gum, walnut, or what? What is the finish: stained and polished, painted, hand-tooled, or what? Take particular note of the door frames for indications of settling or sagging in the house. Note whether baseboards and trim are finished flush with plastering, other special features, etc.
5. *The Hardware.* Carefully examine all interior finish hardware. Of what material and design is it? Is it flashy and cheap or nicely designed, well-made, and smooth-working?
6. *The Lighting.* Ascertain the number and location of all wall and floor outlets for plug-

ging in electrical equipment, radios, etc. Determine whether these are present or absent in the particular locations about the house in which they should be. This is the day of the electric toaster, waffle-iron, vacuum-cleaner, floor polisher, washing machine, ironer, radio, curling iron, etc. Today the average house to be desirable as a home requires sufficient such outlets to permit the use of these modern home labor saving appliances. The location of the electric light wall switches should be checked for convenience to one upon entering or leaving the room. Two- and three-way switches should be in those locations where convenience dictates. The light fixtures, their character of design, beauty, and workmanship are matters for careful study. The wiring should be checked for insulation as to whether knob and tube or conduit construction. The fuse box and main switches should be so located as to be readily accessible in case of trouble.

7. *The Heating.* The type of heating plant is always a matter of real concern. If a furnace—what kind? Wood and coal, gas, oil, hot air, steam, or what? The most important thing is: is it in good serviceable working condition? Its adequacy or inadequacy properly and economically to heat all the rooms in the home should be carefully checked. Is it electrically controlled? How many fire places? and the condition of the flues? Observe the number and location of gas outlets. If the house is heated by gas stoves or radiators determine whether the necessary and proper vents have been provided.
8. *The Ventilation.* Observe the relative size and location of windows and how they open—whether all the way or only part way. Are the closets ventilated to the outside? Is ample fresh air assured?
9. *The Plumbing.* Detailed inspection of the plumbing, insofar as is possible, and the plumbing fixtures must be made:
  - A. Is it connected with sewer or cess-pool?
  - B. Is there danger of roots of shrubbery clogging the sewer pipe?
  - C. Is pipe used within the walls and for the rough work copper or what?
  - D. What is the condition of piping? Particularly the hot water pipes? Are they leaky, badly corroded, noisy, or what?
  - E. What is the type of the hot water heater? Its age, condition, and capacity?
  - F. Are all the valves in good working order?
  - G. Where tubs are enclosed, is there available a readily accessible opening through which to get at the plumbing in case of trouble?

H. Are fittings chromium plated? What grade, style, and condition?

I. How many fixtures are there? Location, grade, and style of each?

In his mind's eye, the appraiser must get the whole picture of the interior of the home down to the smallest detail. He must be able to balance the whole situation as he finds it. He must be keenly aware of the presence or absence of convenience in every move that one might be expected to make about the home. He must take account of the condition of the window shades, the manner and the direction in which doors and windows open and close, and the hundred and one other little things that make or ruin the desirability of a house for a home.

The appraiser must decide whether the cost of the building is warranted in its location. He must know how much area, for the type of building and neighborhood, should be in the living room, dining room, kitchen, bedrooms, and baths. He must be able to ascertain whether the presence or absence of modern appointments such as tiled floors and wainscoting in bath rooms, tiled walls in kitchens, etc., are justified in view of the character of the district. In summing up his analysis of the house he must answer these essential questions:

1. Is the foundation adequate?
2. Is the architectural design of the exterior pleasing? Does it blend with its neighbors?
3. Is the floor plan livable?
4. Is the house so equipped and so maintained as to be fully suited and desirable for the use for which the neighborhood dictates it must be used?

The next problem of the appraiser is the estimation of the probable reproduction cost of the structure. Much might be written upon this phase of the appraisal; however, space will not permit any extended discussion. Suffice it to say that the cost factor used should be such that when the computation has been completed



the results will fairly represent the reasonable average cost for construction of like size and similar type.

In considering the probable reproduction cost of the residence, bear in mind that it is not uncommon to find many contractors, bidding upon the same set of plans and specifications, differing widely in their estimates. Hardly any two will be the same—and often they will vary 25 per cent or more. In view of this very common situation, the appraiser is never justified in using one contractor's estimate as a basis for establishing his cost. He must consider the estimates of many contractors and from these he must eliminate those of the unqualified contractors who under competitive bidding bankrupt themselves or who are always so high that they never secure any work. What the appraiser is after is the fair, reasonable, average cost per square foot for the average house of the same floor area and grade of construction. In the final determination of the proper unit cost per square foot the only requirement of the appraiser is that he be sensible and reasonable. The elements which set the unit cost are

1. The current prices of materials
2. The wages of labor.
3. The square foot area of the building
4. The class of construction—whether:
  - A. very cheap;
  - B. Cheap
  - C. Medium;
  - D. Good; or
  - E. Special.

The appraiser's decision as to the classification of the construction is the most important one he has to make; and it is for this reason that all the previous detailed investigation was made.

The cost of anything is something that can be determined within a very close degree of actuality. There should be no careless guessing, or for that matter opinions, as to the cost of reproducing a house—for careful research will fix it. Repro-

duction cost is a matter of facts and mathematics.

The value of anything is another matter entirely. Value cannot be determined. It may only be estimated; and this is particularly true of real estate. Cost is but a price; whereas value is the ability to render benefits in the form of either services or goods.

A costly structure built in a neighborhood of cheap small homes certainly would not have a value equal to its cost of reproduction. As a matter of observed fact there would be a vast difference. Some appraisers prefer to account for this difference by using an average district structure cost factor rather than the average unit cost factor for reproducing the particular building. For illustration they will arrive at a conclusion after careful study that the average cost per square of the typical home suited to the neighborhood is approximately \$2.00. They then will apply this unit cost to the more costly structure upon the theory that regardless of what it may have, or would cost, to build it does not have a value in excess of that possessed by the average typical improvement which is suited to the district. Hence they would be stating that the cost of the structure was \$2.00 although it actually would cost \$3.75 per square foot to reproduce it.

Enlightened appraisal practice indicates that such a method of procedure is faulty for the reason that it confuses cost and value without proper analysis or validation. Cost is one of the elements which tends to indicate fair value. The actual cost should, therefore, not be short-cutted out of the appraisal. What it would reasonably cost to reproduce the structure should be estimated and set forth by the appraiser in his report. If thereafter the conclusion is that the building is too costly for its location, why then the

proper deduction should be made for the amount of over-improvement as one of the causes of depreciation. At the same time in the report the appraiser would validate the deduction made from cost. Thus if one reading the report of the appraiser were under the impression that cost and value are synonymous (and most people do so believe) they would discover the error in their own judgment. However, by the former method of procedure such a person reading a report and knowing the cost of reproducing the building would be inclined to the belief that the appraiser didn't know his business in view of the unit cost factor he applied in estimating the reproduction cost of the structure.

The depreciated reproduction cost of the improvements should be arrived at by direct computation as follows:

1. Determination of the actual age of the improvements;
2. Estimation of the remaining useful life of same in the district where located; i. e., in view of: (A.) deterioration; and (B.) obsolescence. How much longer, how many more years, will the structure continue to serve as a home for the class of people who may be expected to occupy it?
3. Present cost to reproduce the building;
4. The following formula:  $A + RL = TL$ ; i. e.,

$$\frac{A}{TL} = \% \text{ depreciation.}$$

"A" being the actual age of the structure.

"RL" being the remaining useful life of the house.

"TL" being the total life of the building from the time it was built until it is assumed to be uninhabitable

For example assume a problem as follows: A home built 40 years ago. One that has been exceptionally well cared for and one which is very similar to all the other homes on the block. This district being 100% built up and static. Cost to build today \$6,000.00. In view of the type of district, the suitability of the house to its district, the care which the home has had, etc., it is estimated that the house

will remain useful for at least an additional 20 years. What then is the depreciated reproduction cost of the buildings? Substituting in the above formula we have:

$$40 + 20 = 60 \text{ years; i. e., } \frac{40}{60} = 66\frac{2}{3}\% \text{ depreciation.}$$

$$\begin{array}{l} \text{Deductible depreciation is } 66\frac{2}{3}\% \times \$6,000.00 \\ \text{Which is } \dots\dots\dots 4,000.00 \end{array}$$

$$\text{Depreciated Reproduction Cost is } \dots \$2,000.00$$

In this case the value of the building based upon its economic suitability to the site is identical with its depreciated reproduction cost. Such however, would not always be the case.

For example, let us assume another problem as follows: A home built five years ago. One that has been very poorly cared for. One that cost \$6,000.00 to build and is not suited to the block in which located for the reason that the typical home on the street would not cost more than \$3,000.00 to reproduce. The district 80% built up and the house in question while much larger and more costly than its neighbors is nevertheless cheaply and poorly constructed. Because of the hard usage the property has had plus the inability of the people occupying it to maintain a home of its size and further on account of its cheap and poor construction it is estimated that the house will remain useful 25 years. What then is its depreciated reproduction cost? What also is its value based on its economic suitability to the site?

$$5 + 25 = 30 \text{ years; i. e., } \frac{5}{30} = 16\frac{2}{3}\% \text{ depreciation}$$

$$\begin{array}{l} \text{Deductible depreciation is } 17\% \times \$6,000.00 \\ \text{Which is } \dots\dots\dots 1,020.00 \end{array}$$

$$\begin{array}{l} \text{Depreciated reproduction cost is } \dots \$4,080.00 \\ \text{Deduction for over-improvement } \dots 1,080.00 \end{array}$$

$$\begin{array}{l} \text{Value based on economic suitability} \\ \text{to site } \dots\dots\dots \$3,000.00 \end{array}$$

The sum deducted from the depreciated

reproduction cost in order to arrive at the value of the improvement based on its economic suitability to its site was arrived at by ascertaining the difference between present depreciated reproduction cost of the house and the previously established new reproduction cost of the typical home suited to the district.

No hard and fast rule may be stated for measuring the degree to which over-improvement affects the economic value of a home. However, I do believe that it is fairly safe as a rule to say that the structure which is an over-improvement will be depreciated in its economic value to that point where its value will not exceed the reproduction cost new of the typical improvement suited to the district.

The important thing for the appraiser of the home to remember is that he does two things:

1. Determines the depreciated reproduction cost; and
2. Then estimates the economic value based on suitability to the site.

The first is arrived at by investigation of the costs of material and wages plus deductions for age and condition. It is purely a mathematical problem dealing with determinable facts and conditions.

The second, however, is arrived at by investigation of utility, desirability, and the relationship of the structure to the neighborhood scheme of things. It is purely conclusion dependent upon the investigation made and the sound judgment of the appraiser.

#### THE LAND

The estimation of the reasonable value of residential land requires careful and analytical investigation. Some of those more important things which tend to limit the value of residential land are:

1. The number of remaining vacant parcels of land within the general district;
2. The opinions of owners and brokers as to

what they believe these unimproved lots to be worth;

3. The prices at which such parcels are offered for sale;
4. The prices recently paid for any such vacant land;
5. Available similar residential lots not within the district but competitive with it;
6. The accessibility, public utilities, and the transportation facilities of the district;
7. The presence or absence of sewers, drainage-system, sidewalks, curbs, street paving, and street lighting;
8. The topography of the land—whether such as to permit of improvement without additional expenditures for grading, retaining walls, foundations etc.;
9. The fertility of the soil;
10. The climatic conditions;
11. The distance to neighborhood stores, schools, and churches;
12. The presence or absence of parks, play grounds, theaters, country clubs, etc., within easy driving distance;
13. The effect of any restrictions or zoning;
14. The taxation, general and special, to which the land is subject;
15. The general trend of the growth of the city and the particular residential district;
16. The congruity of the structures in the neighborhood, as regards type, reproduction cost, and age;
17. The degree to which the district is built up;
18. The income or earning capacity of the residents in the neighborhood and the city;
19. The social status of the people, i. e., color, race, and occupations; and
20. The character of the occupancy, i. e., owner-occupied in contradistinction to rented property.

Three controlling items which have reflected in them all the others are:

1. The actual prices paid and asked for vacant competitive lots;
2. The new reproduction cost of the home and of the other homes in the district;
3. The income or earning capacity of the residents in the neighborhood.

First, the actual prices paid and asked for vacant lots in the district must be recognized as current estimates of value. Such prices will tend, more or less, to set the value of all the lots improved with houses. Such prices may or may not be justified; but they do, nevertheless, have a very decided effect upon residential land values for the reason that the home buyer

in purchasing a home or home site invariably estimates its worth by comparison with such prices as are known to have been paid or are generally asked.

Second, there is a fairly well-defined ratio which exists between the reproduction cost new of the typical home suited to the district and the value which may be assigned to the home site. This ratio often varies as between the different grades of residential districts and communities. However, once a ratio is established in any particular neighborhood it will be found to be almost constant.

For example, let us assume that the appraiser was in a 100% built-up section which was static and improved with homes 25 years, or more, old which would cost to reproduce new today \$6,000. Further let us assume that absolutely no lot sales had occurred in the section for 20 years (all sales having been of land and buildings, as properties), but that in newer sections where \$6,000 homes were being built land had been recently sold at from \$1,800 to \$3,000 which would lead the appraiser to conclude that the approximate ratio of building cost to land price was 3 to 1; i.e., the land costing one-third the reproduction cost of the typical homes in the district. Hence by inductive reasoning the appraiser would conclude that the reasonable value of the lot in such a neighborhood would be approximately \$2,000. Thus, if the present value of the older house was \$3,200 based in its economic suitability to the site the summation value of the property would be

Land .....	\$2,000.00
Improvements .....	3,200.00
Summation Value .....	\$5,200.00

Third, experience has definitely indicated that, on the average, home owners will occupy homes which are more or less in keeping with their income or family

earning capacity. Usually the value of a home will not exceed two to three times the annual income or earning capacity of the family. Again by inductive reasoning, the appraiser can conclude that the reasonable value of a residential site should not exceed the annual income or family earning capacity of the average typical family of the neighborhood. Thus if it were found that the approximate family earning capacity of the typical family was \$2,400 per annum it might be said that no lot in that neighborhood for strictly single family residential use had a reasonable value in excess of \$2,500 and more often than not the reasonable value would actually be less.

#### THE RENTAL THE PROPERTY CAN COMMAND

The rental which one may receive or expect to obtain from residential property is an important factor affecting its fair value. The normal hazards of life dictate that most people must of necessity set up reserves against unforeseen misfortunes. For this reason the home buyer usually will inquire as to the rent obtainable for the type of home he is about to buy. He wants to know whether the property will carry itself if something should occur which would render it impossible for him to occupy the place as a home for his family.

The rental is important for the reason that in each particular neighborhood there will be found a very definite ratio between the rental which the homes command and the prices at which such homes may be actually sold. Usually this ratio will be from 80 to 100 times the monthly rental. In most cities probably 100 times the monthly rental will be the ratio, provided a normal situation exists as regards



the supply of homes and the demand for same.

Everything we have heretofore discussed is more or less reflected by the rents paid in the neighborhood. In considering the rent which a home can command it is well to check back on all those matters previously mentioned and particularly upon:

1. Number of competitive vacant homes for rent;
2. Prices asked for like space of equal desirability;
3. Rent actually being paid for similar homes;
4. Distance to transportation and cost of same;
5. Time it takes to reach business or industrial center;
6. Distance to stores, schools, churches, etc.;
7. The floor plan of the particular house;
8. Suitability of the home to the neighborhood;
9. The condition and state of repair of the house;
10. The character and class of people living in the neighborhood.

In arriving at the rental the appraiser must bear in mind that he is more interested in the homes in the district which are offered for rent, and at what prices, than he is in the ones already rented. The surplus offerings tend to set the rent which can be commanded. Hence if it were found that in a neighborhood three homes of similar size, etc., were rented at \$50, two at \$45, and that there were four offered for rent at \$40, the probabilities are that the rent which the home appraised could command (all things else being equal) would be not more than \$40 per month.

#### THE MARKETABILITY OF THE PROPERTY

The present price which one might expect to receive in the market at the date of the appraisal is an important element entering into the fair value of the single family home.

Regardless of how depressed prices might be, or how unfair, or how unjustified in relation to present building costs,—

nevertheless, any owner desiring to sell must meet this competition. For this reason prices actually paid whether distressed, foreclosure, or otherwise, exert a tremendous influence upon the fair value which may be assigned to the home.

In times of general distress, such as have for some time prevailed, and often in isolated locations, the possible sales price of single residential property approaches the vanishing point. If this be so, unfortunate as it may be, nevertheless the appraiser must give it full consideration in the fair value estimate. To disregard actual sales in residential appraising and their effect upon fair value is fatal to the final conclusion. The market price obtainable for a residence will depend upon all that has been heretofore said plus:

1. General business conditions in the community;
2. The sources available for long term mortgage loans;
3. The ease with which mortgage funds may be obtained and the interest and repayment rates asked;
4. The employment situation in the community;
5. The assessed valuation and the tax rate;
6. The number of owners compelled to sell;
7. The number of buyers wanting and able to buy;
8. The vacancy of homes within the community.

As has been heretofore stated the rent which the residence can command is the best guide to market price in the absence of any recent actual sales of similar homes.

#### THE SOCIAL ASPECTS

Of more importance than any of the preceding matters touched upon is the proper analysis of the social environment surrounding the home.

The appraiser must study the whole community. He must know the neighborhood. He must learn of local prejudices, racial characteristics, and customs. Every

angle of the human element he must get.

The appraiser must realize that he is interested in far more than just one house and one lot. How shall he characterize the district and the social influences which have so much bearing on the value of the single family home? Let him consider:

1. Employment from every angle;
2. Standard of living and the ability of the people to continue to maintain the standard through times of distress;
3. The homes owned. The homes rented;
4. The homes clear of debt. The ones mortgaged. The ones foreclosed;
5. The public improvements and utilities;
6. The congruity, quality, and age of structures in the neighborhood;
7. The community spirit;
8. The rate of community growth;
9. The trend of community development;
10. The policies of the local government;
11. The public school system;
12. The churches, libraries, parks, and recreational centers;
13. The source of water supply. Its quality, quantity, and cost;
14. The landscaping of homes in the neighborhood. Its quality, suitability, attractiveness, and desirability; and
15. The reputation and character of the residents in the neighborhood. Their occupations and financial means.

#### THE ECONOMIC INFLUENCES

To attempt more than to touch lightly upon the countless influences of an economic character which directly and indirectly keep residential values always in a state of flux would be presumptuous in an article of this character.

The ever prevailing interplay of economic forces is at work and because of this the appraiser cannot accurately determine value. The most he can hope to do is to make a reasonable and sensible estimate of value because it is impossible

to measure these positive and counteracting influences.

The appraiser in piecing the puzzle of fair value together must take all the foregoing accumulated data, information, estimates, and opinions and interpolate the effect of:

1. Desire and desirability;
2. Market and distribution;
3. Price and value;
4. Supply and demand (effective demand);
5. Money and its value (purchasing power);
6. Organization and production;
7. Population and the supply of labor;
8. Labor and machinery;
9. Wages and capital;
10. Interest and rents;
11. Credit and banking;
12. Government and taxation; and
13. Political trends and legislation.

Today the fair value of the American home has become the concern of the national government, and properly so. In the words of President Roosevelt "... we are seeking to find the way once more to the well-known, long established, but to some degree forgotten, ideals and values."

The fair value of a single family home I would say is that sum of money which a prudent and well-informed owner would be warranted in accepting, in view of all discernible economic factors and environmental conditions, if not compelled to sell.

Thus what one might have paid for a home during these times of wholesale liquidation is not a sum of money which represents fair value, for invariably the seller is compelled to sell. Three value estimates are essential to an opinion of fair value. They are:

1. The market price obtainable;
2. The depreciated replacement cost; and
3. The utility worth based on rent.



# Effect of Credit and Production on Prices

By GEORGE L. SCHMUTZ, M. A. I., and LORING O. MCCORMICK

IF double the amount of money and what serves as money were to become available at once, all other conditions remaining unchanged, then prices would almost immediately double; conversely, if the quantity of money, etc., were to be reduced by one-half or, if production were to double and credit remain unchanged, then prices would shrink in like proportion. At this point, it is necessary to make the qualification that, the users of money—and those extending credit—*be aware of the change* in the quantity of money. The price level of commodities is dependent upon the relationship existing between Credit on the one hand and Production on the other.

## THE SIGNIFICANCE OF CREDIT

Credit can best be defined as an extending of the use of money, with a promise on the part of the borrower to repay at a later date. The use of money might be borrowed to satisfy normal human desires, or to pay accumulated debts, or with the expectation of using it to make a profit. Most borrowings are for the latter reason.

Generally speaking, whenever credit is extended—particularly by financial institutions—some form of wealth, or a claim to wealth, is given as security for the credit advanced. The extending of credit depends upon a number of factors and chief amongst them is the *estimated* money value of that which is pledged for the loan. The estimate of this valuation is known as an appraisal. If that which is pledged has a lesser money value than estimated, then credit will have been

overextended; and therefore, the general price level as reflected in actual exchanges will likewise be above the price level which is warranted.

It has been previously pointed out<sup>1</sup> that the "warranted" price level is determined by the relationship existing between the quantity of money and currency and credit, multiplied by its safe circulation rate, on the one hand, and production and trade and the quantity of wealth on the other. If the circulation rate rises above its safe limits, market prices and the general commodity price index will reflect market prices in excess of theoretical warranted prices, and thus will there be a tendency towards overextension of credit. The growth of production and trade and physical properties at a rate greater than the increase in money and its effectiveness will eventually cause a recession in the warranted price and *ultimately* in actual prices. Under the latter conditions, if the credit extended is based on an estimate of market prices where previous price levels are taken as a criterion, then market price will be in excess of the warranted price, or what is herein termed the "Value ratio." Under such conditions, market prices might remain constant for a time, even though the value ratio drops rapidly, but sooner or later, the discovery is made that the market price is above the warranted price and that the quantity of credit is too great. Under such conditions, credit is restricted, the circulation rate falls, and prices likewise move down toward the point of agreement with warranted price, or the value ratio.

To make the above somewhat clearer,

1. See Vol. II, No. 3. Page 181ff of this Journal.—Ed.



let us consider some hypothetical relationships;—assume, that in 1922, the quantity of money and credit multiplied by its safe circulation rate was 85, and that production, trade, and all property was 100. The former divided by the latter would be .85, representing the warranted price level, or value ratio. Let us assume further that money, credit, and the actual circulation rate = 100 and that production, trade, and property = 100, which is about 15% above the warranted price level of 85; let us further assume that the quantity and effectiveness of gold on which credit ultimately depends is increasing at the rate of 2% per year, while production, trade and property are increasing at the rate of 4% per year; let us further assume that extensions of credit by financial institutions from 1922-29 were based upon previous sales prices and previous general price levels, and that under such conditions, loans of credit, as they matured, were paid by executing new notes for the sums borrowed, plus interest. In 1929, we would then find the following conditions as regards actual price levels:

Money and credit x actual circulation rate	= 1.316
Production, trade, and property	= 1.316
Actual Price Level	= 1.000

as regards warranted price level (value ratio) we find:

Money and Credit x Safe Circulation Rate	= 0.976
Production, Trade, and properties	= 1.316
Warranted Price Level, or Value Ratio	= 0.742

Under such conditions, the only rational assumption that can be made is that, sooner or later, it will be found out that credit is over-extended; and, when this is learned, then credit will be curtailed, and the price movement will be downward as heretofore stated, and as previously discussed, causing a disappearance of profit, increase in unemployment, and all

of the other serious consequences previously enumerated.

It thus becomes clear that a further study and knowledge of the "value ratio" and the safe circulation rate of money is necessary if we are to maintain relative stability between market price and warranted price, and thus eliminate the disastrous effect which accrues by virtue of a falling price level, in turn brought about by over-appraisalment. Under-appraisalment, where credit is being obtained, has far less serious consequences than over-appraisalment—the consequences of which are disastrous to everyone.

#### QUANTITY OF GOLD

The quantity of gold is dependent upon its rate of production, and in turn its rate of production is dependent upon the difference between the cost of producing gold and the price for which it can be sold. Thus, the quantity of gold produced is dependent upon the profit which can be won, the same as in other lines of production. If the commodity price level increases, then the higher-cost gold mines will close, one by one, as advancing costs dissipate the margin of profit. This happened during the period 1915-1929; only those mines which had low production costs could profitably operate. A reduction in the commodity price level has a converse effect; as costs recede, profit increases, gold mining is stimulated, and higher cost properties come into production, and the supply of profitable ore reserves tremendously increases, bearing in mind that *the PRICE of gold does not fluctuate.*

A rising commodity price index is partially checked by a reduction in the production of gold, which is brought about by the rising costs of mining, occasioned by the rising price level. Similarly, a

declining price level is ultimately halted by an increase in the production of gold which in turn is brought about by decreasing mining costs. Thus is it seen that the *tendency* is toward equilibrium between the production of gold and the commodity price level, and in turn the production of commodities and of trade. However, this normal tendency toward equilibrium might be interfered with in several ways:

1. by war with its attendant inflation of currency and credit, or by
2. credit inflation arising from over-valuing that which is pledged as security.

During the past few years, much has been said about the shortage of gold, and many articles have been published with dire prophecies made as regards future gold production. With these prophecies the writers do not hold. With the falling price level, since 1929, the world's production of gold has greatly increased, and the monetary supply has been further augmented by the transfer of gold from the arts, such as jewelry being melted and sold to the mint for monetary uses. In the making of estimates of the future production of gold, too little account has been taken of the fact that, *as the cost of gold production declines, the quantity of production increases.*

#### EFFECTIVENESS OF GOLD

If gold were the only medium of exchange, the quantity of gold needed to carry on the commerce of the world would be wholly inadequate. Again, if the circulation rate were such that gold "turned over" but once a year, commerce would be limited. Increasing the circulation rate of gold is equivalent in effect to an increase in the actual quantity of it. The use of currency and coins which are redeemable in gold increases the effectiveness of gold by increasing its rate of

"turnover." Deposit currency, such as checks, trade acceptances, etc., ultimately redeemable or which can be converted into currency or gold, are also tantamount to an increase in the quantity of gold, inasmuch as they increase the rate of circulation.

The circulation rate of money and credit—which is based upon gold, in turn is dependent upon the rate of production and consumption, and production and consumption in turn is directly or indirectly dependent upon the existence of a profit. Money profit in turn is ultimately dependent upon the difference between the rate of increase of gold, and the safe circulation rate of money, and the currency dependent upon it, as compared with the increase of property—both real and personal.

To illustrate: if gold and its effectiveness increased 2% per year, while real and personal property increased 4% per year, all other conditions being equal, prices would fall and money profit would disappear, even though an actual profit in the quantity of real and personal property be had. Thus, it is money-profit more than actual profit which determines the rate of production and consumption, and to a large extent the standard of living.

#### EFFECT OF GOVERNMENT ACTIONS UPON PRICE LEVELS

It has been pointed out that Commodity Prices are dependent upon Credit, on the one hand, and Production and Trade on the other. Therefore, it becomes necessary to inquire as to what controls the volume of Credit. Without discussing a multitude of details and ramifications, it might be generally stated that the volume of Credit is determined by the *quantity* and *effectiveness* of monetary gold; which

in turn is largely dependent upon Governmental Actions.

The *amount* of monetary gold in the World reaches its maximum efficiency when each Nation on the gold standard has no more, nor any less, than sufficient gold to provide a sufficient backing for its monetary system, and to take care of International Balances arising from trade. The amount of gold necessary to provide cover for currency issues and sight drafts is about 40%, i. e., there should be \$40.00 of gold in the Central Bank for each \$100.00 of currency coined, sight drafts, and notes of issue outstanding. If, due to circumstances, some of the Nations lose gold, and the gold cover is reduced below 40%, then their internal price structure, expressed in terms of gold, falls for the reason that Credits, based upon gold, must be contracted in proportion to the gold lost. The countries receiving gold can use it in two ways: to increase the volume of currency and sight drafts and hence Credit, which would have the effect of increasing Prices; or they may use it to increase their percentage of Cover. If the gold is received by a nation in the ordinary course of trade, or in payment of principal and interest of privately made foreign loans, it is paid to banks which in turn can use it to increase the amount of currency, by the issuance of notes, or to reduce their indebtedness to the Central Banks, such as the Federal Reserve System. If notes be issued, then the Credit volume will be increased; if not, it merely provides additional Cover. However, if the Government receives the gold, then it will be deposited in the Nation's Treasury, and will merely increase the Cover against currency, and have no effect on the Price level. Under the latter condition, the country losing the gold would experience a decline in the Price

Level of Commodities in that country, in relation to the Price Level in other countries maintaining a normal gold cover; and the gold-losing country would thus be more able to export than to import, due to the competitive advantage of lower prices. However, if the country receiving the gold prohibits the import of goods, then the quantity of monetary gold throughout the World would have its effectiveness reduced because a portion of the World's gold has been withdrawn from normal use. This withdrawal from normal use is what is known as "sterilization."

Prior to the World War, about 62% of the World's monetary gold was effective gold, i. e., it served as a cover for money and sight obligations, the balance being in circulation or hoarding; during the War and until about 1922, the percentage of monetary stocks in the Central Banks, such as the Federal Reserve Bank in the United States, rose to about 92%, being an increase of about 48.4% while the Commodity Price Level rose in almost exactly the same percentage. Thus, the increase in monetary stocks of the Central Banks increased the efficiency of the total monetary stocks, i. e., the percentage of monetary stocks acting as cover was increased without a corresponding change in the quantity of the monetary stocks themselves.

From 1922 to 1929, the amount of monetary gold going into the Central Banks throughout the World increased at the rate of about 3.25% per annum, and the World's production increased in a like ratio. In 1925, an agreement was made between nations regarding the payment of debts arising from the war which later allowed of the sterilization of gold. It is a demonstrable fact that world prices rise and fall in unison; and if debtor na-

tions fall below their required cover, then prices will fall, not only in those nations, but also in those nations receiving the gold as well, due to causes previously mentioned.

Since 1928, when the creditor nations principally the United States and France, began to insist upon payment in gold, and erected Tariff Barriers, the amount of gold in the debtor nations decreased and the price recession in those countries was very close to the percentage loss of gold.

*The change in the world's price level since 1929, and the attendant depression has been caused by governmental actions throughout the world, by virtue of interference with the normal distribution and efficiency of the world's monetary gold stocks. Therefore, in estimating prices of commodities or of real estate, it becomes necessary for the appraiser to give consideration to the Probable Future Actions of Governments, particularly as regards debt settlements, tariffs, import quotas, and the like. In the final analysis, what Governments will do will depend upon Public Opinion; and in this respect, it is more important to know what people think, than it is to know what they have a right to think—for what people do think is what actuates Government. The importance of the appraiser being able properly to gauge Public Opinion cannot be overemphasized.*

#### THE NATURE OF PRODUCTION

In the broadest sense "production" is the sum total of those things which man and nature jointly produce. That which is not used from year to year and which represents the excess of production over consumption constitutes the supply of wealth.

As Realtors, we are more interested in the practical significance of the control-

ling factors in production, rather than what production is. When we consider such countries as China, Russia, South America, Mexico, and others possessing great natural resources but without any appreciable industrial production, we are immediately forced to the conclusion that industrial production is largely dependent upon the degree of education of the people of the country, as well as natural resources.

#### NECESSITY OF A PROFIT

Another strange thing about production is that a careful investigation of industry leads to the conclusion that the quantity of production is not determined by the Supply and Demand of people, but is dependent upon Supply and Demand as dictated by the Price Level.

In Russia, China, India, and the poorer nations of the world, individuals would like to have the same Standard of Living as we have in the United States of America. As far as Demand is concerned, or the desire to Demand, there is no limit. Also as regards Supply, the means could be found to supply the demands of the people of these countries, to the same degree as here in America, if there be present the ability of the people to pay. This non-ability to pay precludes the making of a profit, and under such conditions the want will not be supplied. Profit is the Alpha and Omega of industry and production. Without profit, both production and consumption lag; with profit, production and consumption increase.

In primitive times, all that was necessary for production and consumption was the possession of raw materials and the knowledge of how to fabricate them. As long as production could be carried on so that a real profit was made, i. e., an increase in wealth and an increase in the



standard of living, then production would go on unhampered by "booms" and "depressions." Under the more complex methods of production and distribution which have existed for a great number of years, and the growing use of money and deposit currency, profit is measured in terms of money rather than in an increase in wealth, or an increase in the Standard of Living.

Irrespective and regardless of the ability of the United States of America, and the World, to produce and consume at a rate greater than at present, such increases do not take place when money profit disappears. When money profit disappears, or diminishes, as exemplified during the period 1929-1931—first the price level falls, and production and consumption decrease until a new low level of equilibrium is reached between money and credit on the one hand, and wealth and production on the other. The new level to which prices fall must of necessity be a level wherein money profits appear.

Production and consumption both depend upon the degree of equilibrium between the productive factors on the one hand, and money and credit in relation to production, trade, and wealth on the other. When all these factors are in relative equilibrium, production and consumption are at their greatest; conversely, production and consumption are at their least and the "disequilibrium" is greatest. We might say that equilibrium among the productive factors is attained when those factors in production having supply costs, such as Labor, Organization, and Capital, receive adequate returns, and when land and natural resources receive a "rent" sufficient to stimulate the employment of the other productive factors. The other side of the picture of economic

equilibrium would be represented by the increase of gold and credit and the safe circulation rate of credit at the same rate as the increase in production and trade.

Needless to say, the equilibration of all of these factors at one time is practically impossible. Due to progress of the arts and to the frailties of human judgment, conditions of disequilibrium are always arising and we can do no more than recognize that there is always a *marked tendency toward equilibration* among the productive factors, gold, production, commodity prices, etc. The equilibration, or rather the degree of equilibrium, between the four productive factors, Labor, Organization, Capital and Land may be excellent, as was the case in the period 1922-1929; and under such conditions, production and consumption continue, increasing at the rate of about 3.5% per year compounded. While equilibrium is being maintained between the productive factors, the conditions of disequilibrium is arising between gold and credit on one hand, and the quantity of real and personal property on the other, i. e., the warranted price is receding at a rate more rapid than market price, which is tantamount to saying that credit and the circulation rate are too rapid, or that the quantity of gold, upon which credit is based, is too little, or that prices are in excess of values. All of those are truths, but all of them are likewise only a portion of a greater truth which is that equilibrium is dependent upon a proper relationship between all of the above mentioned factors, and not upon any one individually.

#### STABILITY OF PRODUCTIVE FACTORS ESSENTIAL

Whenever the productive factors—Labor, Organization, Capital, and Land have reached a condition of fairly stable



equilibrium—i. e., when each is receiving that share of the Joint Product determined by their respective costs—any change in the price level will bring about a condition of "disequilibrium," i. e., a condition under which some of the productive factors get more than their rightful share, and others less. The effects of such "disequilibrium" will be great or small according as the price changes are great or small. This can be shown by a consideration of a hypothetical case in industry. Let us assume that from 1922-1929, under a fairly level course of commodity prices—Labor, Organization, Capital, and Land has reached a condition of relatively stable equilibrium; a condition where competition determines the percentage which each of the productive factors could exact as their share of the Joint Product.

The assumed condition as regards percentage distribution is as set forth below:

Value of Joint Product (gross income)...\$100.00

*Labor Costs*

Direct Labor, i. e., factory wages .....18%

Indirect Labor, i. e., office, selling, etc..30%

Total .....48% \$48.00 = 48%

*Organization Costs*

Taxes, Insurance, Public Utilities, etc.12% \$12.00 = 12%

*Capital Charges*

Int. and depreciation on investment in bldgs. and equipment and Int. on stock .....30% \$30.00 = 30%

*Land*

Including profit .....10% \$10.00 = 10%

Total ..... \$100.00 = 100%

Let us further assume that in a two year period, the decline in the price received for the Joint Product is 25%; that wages have been reduced 15%; and that the cost of the capital investments had likewise declined 15%. Under such condi-

tions, the percentage of the Joint Product paid to the productive factors would be as follows:

Joint Product (gross income).....\$75.00

*Labor Costs*

\$48 less 15%.....\$40.80 = 54.4%

*Organization Costs*

Same .....\$12.00 = 16.0%

*Capital Charges*

\$30 less 15% = \$25.50.

However, balance is only .....\$22.20 = 29.5%

*Land*

Including Profit ..... none none

Total .....\$75.00 = 100.0%

Under the above condition of disequilibrium, induced by the recession in the price level, the percentage changes of the return to the productive factors are as follows:

	was	is
Joint Product ...	\$100 = 100.0%	\$75.00 = 100.0%

Labor .....	\$ 48 = 48.0%	\$40.80 = 54.4%
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Organization .....	12 = 12.0%	12.00 = 16.0%
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Capital .....	30 = 30.0%	22.20 = 29.6%
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Land .....	10 = 10.0%	none = none
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Total .....	\$100 = 100.0%	\$75.00 = 100.0%
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It is readily seen that of the price received for the Joint Product, Land is receiving 6.4% of the Joint Product more than is its normal due; Organization is receiving 4% more than it is normally entitled to; while both Capital and Land are receiving less than their normal percentages. Under the above conditions, when the Joint Product sells for \$75.00, Organization is receiving 33.3% more than it is entitled to under conditions of equilibrium, while Labor is receiving 13.3% more.

#### EFFECTS OF INSTABILITY OF PRODUCTIVE FACTORS

In the previous chapters regarding the productive factors, it was pointed out that whenever Labor, Organization, and Capital rose above their respective supply

costs, that Land and natural resources—by remaining unemployed—would ultimately shear off the excess above the supply costs paid to the other factors.

Under the latter conditions, if it is indicated that the price level will remain constant, it becomes clear that both Labor and Organization costs would be reduced. Lack of ability of the industry to make a profit and to sell its goods at a price greater than \$75.00 would first result in lessened production, which would lead to unemployment; thus to a surplus of labor, over a period of time; thereby ultimately leading to a reduction in costs. The costs of organization, which are composed largely of taxes, direct and indirect, would likewise be sheared off by public insistence. Organization costs drop somewhat more slowly than do Labor costs. It is obvious that the adjustment spoken of must occur over a fairly long period of time for the simple reason that Labor, the populace, and government in general does not recognize nor apprehend the principles involved; and adjustments occur, not at the time their need becomes apparent or advisable but, at that point where Labor, through unemployment, and politicians through public insistence, are forced to make the adjustment.

#### RECAPITULATION

In the final analysis, it becomes apparent that the maintenance of a given standard of living, or production and consumption, depends upon the degree of equilibrium between the factors in production, i. e., Labor, Organization, Capital, and Land, with the equilibrium of

these factors in turn being directly dependent upon the degree of stability of the price level.

We also find that the stability of the price level depends upon how close the adjustment is between the market price level and the warranted price level. The warranted price level, to which the actual price level adjusts, is dependent upon the quantity relationship between the quantity of real and personal property in production on the one hand, and gold, plus money currency, and deposit currency times its safe circulate rate on the other. We also note the tendency for the production of gold to balance with production in the quantity of real and personal property.

Under such conditions, we are forced to the conclusion that, in order to maintain equilibrium in an economic sense, it will be necessary to find how to control the velocity of credit so that it hovers at or near the *safe rate*, rather than rising greatly above or falling greatly below, thus leading to alternate "booms" and "depressions," with their attendant disastrous consequences.

It is also apparent that such controls must be World-wide to be of avail, for the day has long since passed when any country can deal or can live as though it possessed an existence independent of the rest of the World. The growth of Commerce and of Production, necessitating international commerce in order to satisfy our complex wants, does not allow us to isolate any single country and deal with it as possessing a separate economic existence.



# Central Business District Paradox

By WALTER R. KUEHNLE, M. A. I.

**T**HOSE who are interested in the value of property in the Central Business District have observed a strange phenomenon in the past few years. From tearing down old 4- to 10-story improvements for the purpose of building still larger and more imposing structures, owners of Central Business district property have taken to removing such old structures to make way for 2-story buildings and parking lots.

As higher and higher uses presented themselves for Central Business District property, developers reached higher and higher toward the stars, until it seemed that soon the story of Babylon might virtually be re-enacted. In Chicago the climax was reached when an ordinance was passed to raise again the higher limit to permit a building 60-stories high on a prominent Central Business District corner. This change was fought by owners of Central Business District property, who realized that by thus increasing the height limit that the future demand for upper floor space in tall buildings could be satisfied by less land and that this action had a depreciating influence on all land not improved to its best use, and to existing buildings. They recognized the peril to their investments and the ordinance was finally repealed, and the building was never built.

In America, we have always seemed to revere mere size. We take great pride in having the tallest buildings. But such projects have not always proven economically sound and we have in our larger American cities, buildings that are now the butt of stage jokes. One project, in one of our large cities, and its developer, is the

butt of a joke upon which is based one of the principal scenes in a current popular musical comedy.

Abruptly, the procedure seems to have changed. Instead of wrecking to build tall buildings, we are wrecking for very modest uses; four-, eight-, eleven-story buildings are being removed to make room for parking lots and two-story taxpayers. It is indeed rather difficult, at first glance, to see the soundness of wrecking a tall building to make way for a two-story building or parking lot.

I am sure every appraiser, interested in the value of Central Business District property, is interested in learning the real impelling economic forces behind this reversal of the orthodox cycle of development.

The Magazine Section of a large metropolitan newspaper recently carried a feature story of several pages, to the effect that high taxes were causing buildings to be razed, with accompanying illustrations depicting the all-encompassing destruction in colorful terms.

In their present depression-chastened mood, even property owners are ready to admit that there is quite a large supply of Central Business District property for the potential demand that might reasonably be expected. Being in this mood, these owners are, therefore, casting about for some temporary use which, although not paying a return on the alleged capital value, will at least carry the property without loss until there is a demand for the site for the higher use, which is the basis of its alleged value.

The writer has analyzed two common types of such temporary use, i.e., the re-

placement of a six-story store and office building and improvement with a two-story "walk-up" store and loft building, and the removal of a four-story store and office building for use as a parking lot. In the former case there is a new building which must be amortized over the period of temporary use (some estimates have been based on ten years of such use), while in the latter case there is nothing to be amortized save grading and conditioning costs.

Analysis of these cases, which are typical with others which the writer has examined, dissipates the fallacy that these buildings were wrecked because of the high tax upon the building. Rather they were the victims of their own economic inadequacy. Examination of the tax records shows that this inadequacy was recognized by the Assessor and that only ten per cent of the total tax bill was upon the building, the remaining ninety per cent representing the tax upon the land based upon its comparative value.

Examination of the tabulated use and income analyses shows, in both example 1 and example 2, a steady decline from year to year in both the percentage of total space rented and in the rentals obtainable for space. Going into the "red" was inevitable. One example actually slipped \$10,000 into the "red" while the other seems to have been caught the year before it slipped over.

In the case of the substitution of a two-story store and loft building for the six-story store and office building, the net income increased before depreciation from \$5,127 to \$27,892 per year.

In the case of the parking lot, the property went from a net loss of \$10,110 to a profit of \$200. In neither case will the net income justify the generally accepted notion of value in the land (comparative method), but serves merely to act as a

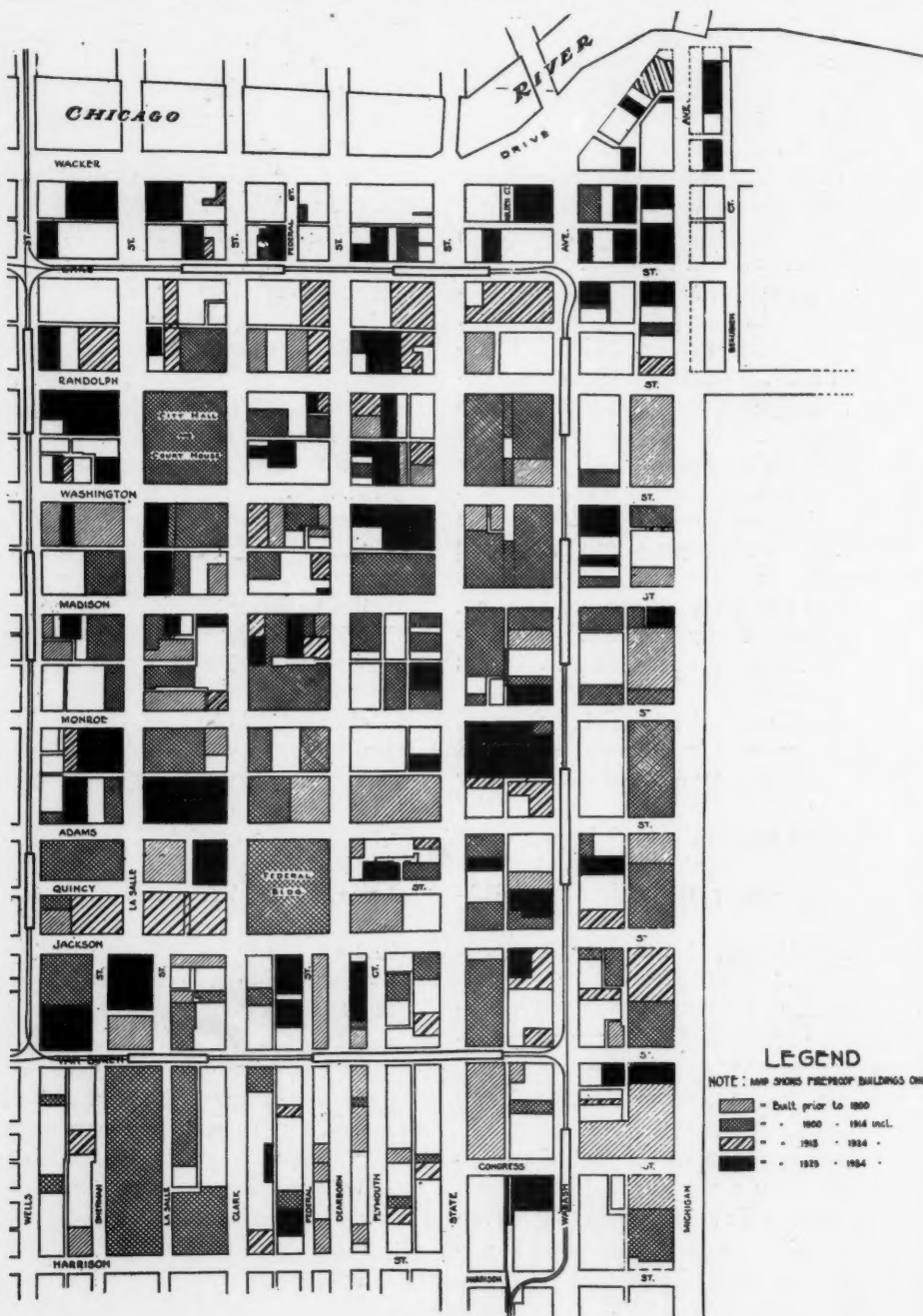
"stop loss" to prevent the piling up of cumulative losses.

This point readily provides the answer to the paradox of removing a six-to eleven-story office building to make room for a parking lot. The building is economically useless, as the lower rentals that must be accepted and the increasing vacancy due to the competition of more modern buildings causes the outgo for meeting expenses and taxes to exceed the income. Faced with this situation at a time when there is no demand for tall buildings representing the theoretical highest and best use of the site, it is only natural that the owners should cast about for some means of securing the maximum income from a modest improvement until the lot is ripe for a maximum development.

Improvements of this type may take variations different from the two examples which I have given. The largest recent development of this kind in Chicago was wrecking an old six-story building and an old eleven-story building, clearing a corner plot of land 190 x 130 feet. An L-shaped two-story building was built to a depth of 60 feet on the two street frontages, leaving an interior courtyard 70 x 130 feet, which is to be leased for auto parking.

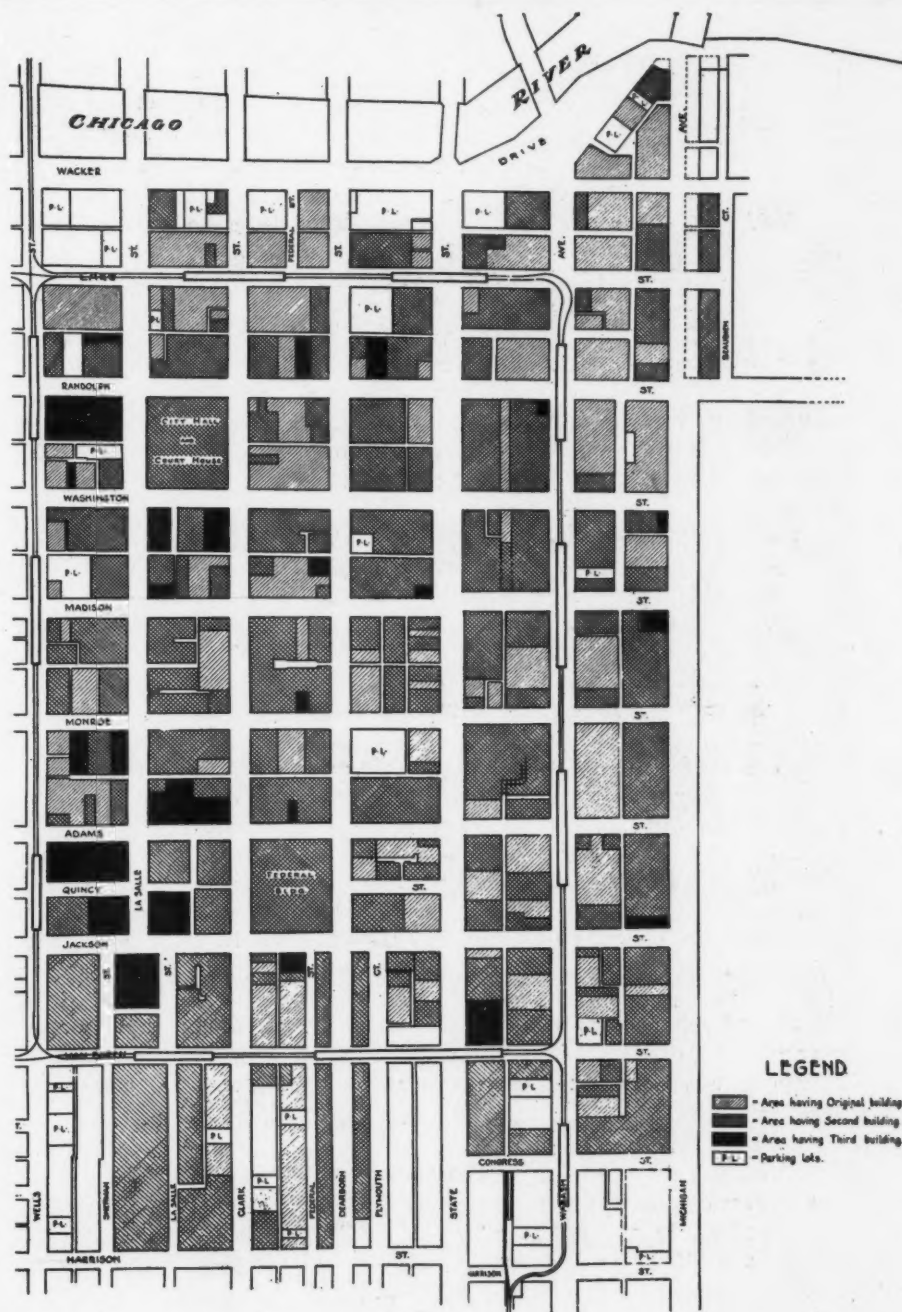
As to potential future use of land and its effect on present-day values, there is almost certain to be some revision of our fundamental ideas. Recently a streamlined train crossed the United States in fifty-one hours. New inventions and engineering genius are constantly decreasing distance as measured by minutes between points. These changes are increasing our supply of land from the limited amount, within a reasonable time limit of the center of the city, of the horse-and-buggy days to an almost unlimited supply in this age of rapid transportation. In the Central Business District itself, vertical, as





Plat No. 1





Plat No. 2

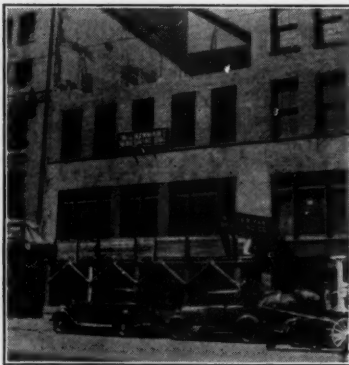
well as horizontal expansion has increased the supply far beyond the demand for tall building sites.

The accompanying Plat illustrates this point. Plat No. 1 shows the fireproof buildings in the Central Business District by age groups. Note the comparatively small percentage of ground occupied by fireproof buildings built from 1925 to 1934, or even from 1915 to 1934.

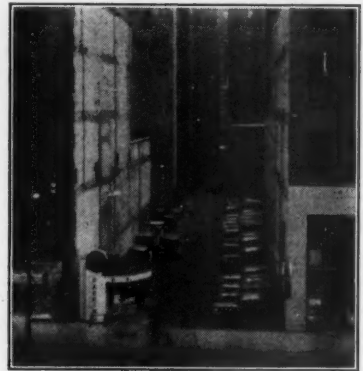
Plat No. 2 illustrates the comparatively rapid rate of turnover of use in the past

of Central Business District sites, showing those sites with first, second, and third principal buildings since the Chicago fire. Note the large percentage that have their second principal building.

New inventions and more efficient and beautiful structures are a constant threat to existing structures; buildings now apparently improved to their best use, are again in potential competition with other sites for new uses.



Before



After

#### USE AND INCOME ANALYSIS

##### Example No. 1

Removed 4-Story Store and Office Building and Improved as Parking Lot

Year	Old Building						Net	
	Gross Rental Value	Actual Rented Space	Actual Sq. Ft. Rented	Effective Gross Income	Expenses	Net Income before R. E. Taxes & Depr.	Real Estate Taxes	Income or Loss before Depr. on Bldg.
1929	\$66,850	91%	30,785	\$60,834.32	\$15,561.31	\$45,273.21	\$27,017.89	\$18,255.12
1930	84,460	83%	27,980	58,101.61	17,312.29	40,789.32	29,609.76	11,179.56
1931	59,850	78%	26,241	46,311.63	18,748.97	27,562.66	24,187.40	3,375.26
1932	47,411	76%	25,596	36,032.34	15,846.11	20,186.23	18,985.75	1,200.48
1933	38,300	76%	25,700	29,100.00	19,219.00	9,881.00	20,000.00	d10,110.00

##### New Use

1934	*14,000 + 50% above \$26,000 (lessor paystax)	x18,000	†17,800.00	200.00
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Notes—Case No. 1. Taxes on old building are approximately 11% of total tax bill. Value of land (by comparative method) \$600,000.

\*Approximate.

xEstimated.

†Same as 1933—\$20,000 less \$2,200, which was tax on old building which was wrecked.

dDeficit.

## Example No. 2

Removed 7-Story Store and Office Building and Improved with 2-Story Building, Stores 1st and Office Loft 2nd

## Old Building

Year	Gross Rental Value	Actual Rented Space	Actual Sq. Ft. Rented	Effective Gross Income	Expenses	Net Income before R. E. Taxes & Depr.	Real Estate Taxes	Net Income or Loss before Depreciation on Bldg.
1928	\$131,740.00	92%	50,309	\$121,199.27	\$34,711.07	\$86,488.20	\$36,833.27	\$49,654.93
1929	123,380.00	92%	50,309	113,509.00	37,509.80	75,999.20	44,045.07	31,954.13
1930	124,342.00	90%	49,216	111,908.15	31,952.80	79,955.35	48,270.53	31,684.82
1931	120,000.00	83%	45,388	99,300.15	34,216.65	65,083.50	41,204.39	23,879.11
1932	107,000.00	70%	38,227	74,879.35	24,073.04	50,806.31	32,501.00	18,305.31
1933	100,000.00	60%	32,810	60,222.12	22,595.00	37,627.12	*32,500.00	5,127.12

## New Use

1934	67,392.00	100%	18,000	67,392.00	7,000.00	60,392.00	†32,500.00	27,892.00
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Notes—Case No. 2: Taxes on old building approximately 9½% of total tax bill. New building cost \$100,000, to be depreciated over 10-year period. Value of land (by comparative method) \$1,000,000. All store rentals on minimum guarantee plus percentage and it is expected that this will produce additional income. No vacancy contemplated.

\*Includes tax on old building.

†Includes tax on new building.



# Capitalization Rates for Long Term Leases

By GEORGE ROBERT QUIN, M. A. I.

WHEN a long-term lease is consummated, the lessor believes he has enhanced the value of his ground by securing a stipulated rental for a long term of years and when properly improved, at the expense of the lessee, the site will develop an investment, marketable to large estates, colleges, and individuals who desire high grade investments on a yield attractive to them and with an assured profit to himself. The lessee is convinced that being able to lease land for a long period permits him to borrow capital direct from the owner and pay interest in the form of rent and leaves him free to borrow additional capital for the contemplated improvement without undue restrictions, and any increment in the value of the holding as the years roll by will inure to his benefit exclusively.

Usually when such leases are entered into the rental is considerably beyond the intrinsic value of the land. The lessee is frequently a bold promoter who through fortuitous circumstances feels that he does not need to risk any of his own money and that he can finance the proposed improvement through a Real Estate Bond Issue. If the improvement yields the "hoped for return," the rental he is agreeing to pay will be justified.

The long term lease has been a very handy vehicle in the development of many sites because it greatly reduced the amount of financing such an enterprise required. Its unjustified use has brought about the present oversupply of office and hotel space in every large city and the decrease in value of all commercial real estate.

In the valuation of a leasehold there are

two interests to be considered. The sum total of these interests cannot exceed the present full value of the land. Frequently it is less.

The *lessor's* interest is limited to the present worth of the annual rentals he receives plus the reversion value, the latter meaning the present worth of whatever value the land and building will have at the expiration of the lease—this is an inconsequential sum when the expiration date is beyond 40 or 50 years.

The lessee's interest remains a negative one until such time as the net income from the property is sufficient, after all operating expenses, depreciation, interest on building investment, taxes, and ground rent have been met, to leave a surplus. Any surplus constitutes the basis of the value of the lessee's interest and when capitalized is known as the Leasehold Equity. If offered for sale, a purchaser would determine the value of the lessee's property at a certain amount for the improvement plus how much he was willing to pay for what he believed to be the Net Earning Power of the lease. At the present time many leaseholds have no value because the expenses of operating the properties in addition to the ground rent are greater than the gross earnings. With net losses instead of net earnings many leaseholds have a decidedly negative value. As all the speculative losses or gains accrue to the lessee, the value of the leasehold equity is based on the profitability of the leasehold in just the same way as any other piece of property is valued on the basis of its annual income over a period of years.



### A FEW FUNDAMENTALS

Before determining what rate of capitalization is applicable for either lessor or lessee let us state some fundamentals:

The rate of capitalization is not controlled by the class of property. The rate of capitalization is a function of and is controlled by the characteristics of the income and the security.

The determination of rate fundamentally goes back to what is accepted as the safest and soundest investment to any one in this country—a government obligation. Every other type of investment must pay higher rates as it varies from the government obligation in length of maturity, security, certainty of interest payment, hazard, worry, and the amount of management and attention demanded from the investor in looking after it.

It has long been an axiom of investment that the yield on a security varies in direct proportion to the risk involved. Thus, as the certainty of safety becomes more doubtful, so the promised return increases. And adversely, when the risk is comparably negligible the investment yield becomes lower. In short, safety and security are desirable factors that must be paid for by the investor. So we find ascending rates of interest accepted as we go from government bonds, to savings banks, to railroad bonds, real estate bonds, preferred stocks, second mortgages, common stocks, one's own business, and oil speculations. Accordingly, fees may be graded as prime, safe, or an ordinary investment and the yield capitalized according to the classification they fit into.

Of course, before applying any of these rates, one must be familiar, with the lease itself, its security in the way of land increment, the suitability of its improvement, and its seasoned record of earnings, and bear in mind that a secured fee and

leasehold are investments of an entirely different kind, and that any method of arriving at the value of a leasehold as distinguished from a fee must take this into account by using a different rate of capitalization.

The lessee is a person in active business who takes all the chances of loss to which the conduct of active business may be subject, who bears the burden of carrying on a business and who guarantees to the fee owner the receipt of his ground rent. For such an enterprise he is entitled to receive a higher rate of return on his invested capital than the fee owner who is not engaged in active business and whose income is guaranteed to him by the lessee. The fee owner's position is similar to that of the owner of bonds who relies upon the activity of the bond debtor to obtain the income.

Where a fee holder has almost absolute security of principal, established certainty and regularity in the payment of the quarterly rental payments, and where there is no supervision or effort required, it is an exceptionally well-secured fee and the yield should be on a basis conforming to investment standards.

In the case of such a property consisting of both fee and leasehold interest, if out of the total value of fee and leasehold one-half should be taken out as the value of the fee arrived at by capitalizing the ground rent at, say four per cent, the remaining value to be ascribed to the leasehold would not necessarily be the other half of the total sum, but a sum substantially less than this one-half, because the leasehold is essentially a different kind of an investment and its value must be arrived at by using a much higher rate of capitalization. Few people subscribe to the theory that one may arrive at the fair value of a leasehold by using the same

rate of capitalization for the leasehold as is used for the fee.

#### FACTORS INFLUENCING VALUE

The value of a fee on an investment basis is dependent upon locality, type, adequacy of improvement, revenue, merchantability of ground lease, moral risk in part, whether the fee is a single unit fee or a blanket fee, and, in general, upon the existing rates of the superbrackets in the income tax law. A fee may have, for certain good and sufficient reasons, a higher value to the man of the leasehold estate than it would have on the investment market; but in the latter situation there exists special conditions which should not govern fee values in general.

The value of every fee, therefore, on an investment basis must be judged on its own merits. A fee under an excessive ground rental would have to sell on a larger return basis than one under a low ground rental. A fee secured by a large modern building which is misplaced may not necessarily constitute a well-secured fee in the absence of revenue. In the instance of excessive ground value, it may constitute a very poor risk. A fee amongst other fees covered by one improvement may have a large modern building covering all, but in the absence of revenue and ultimate reversion to the fee owner, the fee owner is confronted with the serious problem of operation and legal uncertainties in partition proceedings. To ask: "What is the market value of a fee?" is, as an alert and prominent real estate broker said to me, like asking, "How long is a string?" It all depends upon the string.

Many contend that the present high brackets of the income tax have practically eliminated fees on an investment basis, except at a very high return in per-

centage. This view is not substantiated by the transactions actually made in the Chicago area. The value of a fee to the leasehold estate man depends upon circumstances of ownership and conditions surrounding this ownership. Many downtown fees have been sold on a low return basis for purposes of re-financing, to eliminate restrictive clauses in building or troublesome termination clauses and many other complications which can and do come in the dual ownership of real estate. The fees that have been sold on low return basis have usually been those wherein the ground lease was created many years ago, where the lease was not a modern instrument, and where the leasehold equity was considerable—these fees in many cases going to the leasehold estate owner. Some brokers contend that fees sold on an investment basis and adequately secured have had to be offered on a 5% to 6% basis during the last five years and would even have to be higher today, in the absence of a cash market and in the presence of a large income tax. Actual transactions do not bear this out, however.

#### FEE SALES IN CHICAGO

Mr. H. H. Harper has furnished me with the total number of fee sales in Chicago from 1909 to 1933—a 25 year period. Summarized, they show the total number sold each year at the average rate, then the differentiation between merged fee sales and investment sales. The data covers one hundred eleven (111) sales; and the average capitalization rate is 4.34%. Sixty-five fees were purchased by the leasehold owners, thereby merging fee and leaseholds. The average for these merged fee sales was 3.99%. The remainder, or 45 fees, were purchased by investors; and the average rate was 4.82%.

The analysis shows a larger number of buyers of fees among leasehold owners than among investors, and a difference of approximately 1% in the rate of capitalization.

His analysis shows that changing conditions have little or no effect on the rate of capitalization for leased fees. From 1908 to 1912, before the Federal Income Tax Law was passed, fees were sold on an average of 4.18%. During the next five years, the War Period, nineteen sales averaging 4.21%. In the Recovery Period, 1918 to 1922, nineteen sales averaged 4.85%. The next five years, 1923 to 1927, twenty-seven fee sales averaged 4.55%. In the Depression Period, 1928 to 1932, twenty-one fee sales were made at an average rate of 3.82%. It is highly significant that during the last five years of business depression, and in spite of high Federal Income Taxes, the average rate of 3.82% was lower than any preceding five years since 1909. Now, these sales are not to be confused with the fees created within the last ten years at doubtful land values, most of which have either been forfeited or are in the process of being forfeited.

Two recent sales of fees require mentioning because of their price. I refer to the sale of the fee at the Northeast corner of Madison and State and another small fee on South State Street. Both sold on a 6% basis—one was seemingly a bargain—the other an unwarranted high price.

As to the first one, this sale in 1933 was the corner portion at the Northeast corner of Madison and State Streets, part of the site under the Mandel Brother department store. The Assessor's valuation of this specific land was in excess of Two Million Dollars. The fee was sold for One Million Dollars, a 6% capitalization of the ground rental.

This particular fee was placed in trust many years ago by Marshall Field for the benefit of his daughter Ethel, the late Lady Beatty. The trust provided that any properties in this trust could be disposed of by Lady Beatty in her will. Upon her death in 1932 it was found that her will provided for the payment of several large bequests, including the sum of One Million Dollars to her husband. More than a year elapsed before any effort was made to convert this real estate held in trust into cash. Early in 1933 Lord Beatty, an old English gentleman, saw in the change in our own governmental financial policy the desirability, from his point of view, in immediately converting this real estate into cash, and considerable pressure was brought to bear on the trustees to turn the Madison and State Street corner into money.

Americans are apt to look upon this as a sale on a 6% basis. It would have been if it had been sold by an American citizen. However, the proceeds of this sale were going to a Britisher and prior to the suspension of Gold payments by Great Britain the Pound in English Exchange was worth approximately \$4.85. At the time this transaction was made the market quotation was approximately \$3.45. The difference between a par of \$4.85 and the market \$3.45 is 28.97%. On this basis a transaction of One Million Dollars would figure as follows: One Million Dollars at par, that is \$4.85, equals £205,487-7-4; A Million Dollars at the actual quotation equaled £289,310, a difference of £83,825-105-8, or 40.79%.

From the above statement you will note that when a British subject in the early part of April, 1933 sold securities or property in this country valued at One Million Dollars by transferring that amount into Sterling, at the market return

he would secure a profit on the transaction of 40.79%. Therefore, it is apparent that a sale in this country by a Britisher at the rate existing in the early part of April, 1933, even at a sacrifice as to dollar value, eventually netted the holder considerable profit due to foreign exchange conditions at that time. To the best of our knowledge, this transaction when viewed in the seller's eyes was a transaction on less than a 4% basis. That it was an unusually attractive fee is indicated by the fact that three weeks after the purchase the purchaser had an opportunity to sell this fee on a 5% basis, which, of course, she refused to do as she had purchased it for investment.

#### ANOTHER CASE

The other site I have stated was sold at an unwarranted high price. The present value of the land is less than \$250,000. The ground rent is \$21,000 per year, and on a 6% basis, which was the price the fee was sold at, established a value of \$365,500 for the fee, or approximately \$100,000 more than the present full value of the land.

As I said before, a fee and leasehold cannot exceed the value of the land itself, eliminating the worth of the improvement; and a leasehold equity exists only when, after paying all operating expenses, taxes, insurance, management, reserve for depreciation, ground rental, and other changes, an annual surplus remains. This surplus represents the basis of value, and when capitalized at a rate reflecting the stability of such annual net income determines the value of the fee.

In this specific case, the fee has an excessive ground rental, the improvement operates at a deficit. It is a fee among others, and while the improvement is a high modern structure, in the absence of

revenue, and the possible ultimate reversion to the fee owner, the security for the investment is very unsubstantial. The Fee Owner is depending entirely upon the responsibility and financial standing of the lessee to protect his investment. Should the lessee definitely decide to assign this lease into weaker hands, or should a change in business policy cause them aggressively to seek a modification in the terms of the ground rental, so that the rent would reflect present day conditions and trends, the lessor would find it necessary, either to take back a portion of a site improved in such a manner that his holding alone has little income value, or to make such changes in his ground rental so that his rental instead of being around \$21,000 per year would be reduced to one the lessee could pay, which in this case would be 50% to 60% of that amount. Instead of this particular fee being sold on a 6% basis, it should have been sold on a 10% basis, because of the element of risk and the uncertainty in the continuation of the rental payments.

Specifically, since the extent of protection behind the fee is the factor that determines what return of capitalization is to be used, one should proceed as follows: Ascertain, First—the net earnings applicable to pay the specified ground rental; Second—determine the present day value of the land and the present day value of the building; Third—thoroughly investigate its relationship to the highest and best use of the property and study the history of earnings over a period of years. If, for the protection of the fee owner, there is an excess land value, a margin of safety in income, a history of satisfactory building operations,—then the fee under consideration is similar in investment merit and position to an investment in any other field.



# Appraisal of Citrus Lands

By L. C. NANNEY

IN the past, the value of citrus orchards has been determined largely by comparison based on recent sales in the vicinity. While this method may in many cases give a fair estimate of the mass opinion of value, yet the importance of the subject in California and other citrus growing states, deserves a more thorough consideration of the factors involved, and the procedure to be used. Valuation reports setting forth the factors considered, and the methods of reasoning followed in arriving at a conclusion, would inspire a greater respect and confidence in the results.

The value of a citrus grove rests upon three principal factors:

1. Value of the product.
2. Cost of production.
3. Rate of capitalization.

The determination of these three factors depends upon the knowledge, experience, and judgment of the appraiser.

## VALUE OF THE PRODUCT

In arriving at a conclusion in regard to this factor many complex matters must be considered; such as the quantity of production throughout the remaining economic life of the trees; the variety of fruit produced, that is, whether it be valencia oranges, navels, grapefruit, or lemons; the quality of fruit likely to be produced by the particular orchard under consideration; and the return to be derived from each box or pound of fruit grown.

## QUANTITY OF PRODUCTION

This should be estimated after a study of past performance as shown by packing house records, or other reliable sources.

If this information is not available the appraiser must depend entirely upon the other data collected, which must be interpreted by his experience in evaluating citrus and other classes of property. He should study the soil from the standpoint of fertility as well as its adaptability to citrus and the particular variety grown. If he does not know the subsoil condition, he should use an auger and find out what is beneath the surface. He should ascertain the variety of rootstock, the productivity of the buds used, and their compatibility with each other. He should determine if there is the certainty of a permanent water supply of sufficient quantity, and if the mineral content is safely below the limit of tolerance for citrus trees. Any doubt as to the quality of the water should be removed by a chemical analysis. He should satisfy himself that the land is properly drained; that the climatic conditions are favorable; such as freedom from the too frequent occurrence of devastating winds; and a reasonable degree of safety from frosts. He should observe the extent and degree of root and bark troubles. He should determine if there is a sufficient number of trees per acre, based on the variety of citrus and the type of soil. He should find out the age of the plantings and note the general appearance and inherent vigor of the trees. If all of these conditions are favorable, there is then the foundation for a productive grove, and if properly managed it should be in a productive condition. If the orchard is fundamentally good, yet out of condition, due to improper care, inadequate pest control, faulty irrigation methods, or lack of plant food, then the appraiser must discount its

value, depending upon his estimate of the time and expense necessary to restore it to a normally productive state. After carefully weighing the information obtained, the appraiser should estimate the average annual production to be derived from the grove during its remaining economic life, and this should be set up in field boxes per acre or some other unit of measurement.

#### VARIETY OF FRUIT PRODUCED

The relative value of this important factor must be studied before an intelligent estimate may be placed upon the value of the product. The appraiser should be familiar with the findings of the University of California, and the data which can be obtained from the large marketing organizations. This data furnishes a basis for determining the future value of the various varieties. The appraiser should know of the problems which now exist, and which loom up ahead, in the marketing of citrus products. He should know something of the present bearing acreage of these varieties; the plantings not yet in bearing; the competition which exists in the marketing of citrus fruits among the states of Florida, Texas, Arizona, and California; the relation between the marketing of the California navel and the Florida orange; and the part which the valencia orange, lemon, and grapefruit each play in the citrus industry. He should consider the present production, and probable future production, together with present consumption; and the possibility of increasing the consumption of the different varieties, along with the advantages of co-operative marketing, control of shipments, and stabilization of prices.

#### QUALITY OF FRUIT

Before estimating the return to the grower, thought should be given to the

quality of fruit which the grove under consideration should produce, bearing in mind that different districts, different soils, and different methods of management have a distinct bearing on quality and consequently on price. Some districts produce better navels than others, some produce better grapefruit. Other districts are favorable to high quality lemons, or valencias.

#### RETURNS PER UNIT OF PRODUCTION

The next step, after applying the above considerations, is to set the average value per field box to the grower. After the appraiser has estimated the yield in field boxes per acre, and the value per field box to the grower, he can easily determine the annual expected return per acre. He should next arrive at the cost of production.

#### COST OF PRODUCTION

Studies have been made under the supervision of the Agricultural Extension Service, the California Citrus League, and the University of California, on production costs of citrus. Much valuable material has been collected and may well be used by the appraiser. The results obtained by these agencies, however, are averages of wide ranges of cost. The costs on individual orchards vary widely, especially when considering such items as water charges, pest control, frost protection, and taxes. Management also has much to do with some of the cost items. One finds a material difference in the cost of lemons as compared with oranges.

After a careful study of the various items entering into the cost of production on the particular orchard under consideration, the appraiser should arrive at the probable future average annual costs per acre. The California Citrus League re-

ports the annual acre costs for the state up to picking as follows:

Oranges, 1932 .....	\$177.91
Five year average, 1928-1932.....	249.51
Lemons, 1932 .....	242.87
Five year average, 1928-1932.....	280.86

These figures include all cultural costs, and depreciation on buildings and equipment; but they do not include cost of picking and hauling, nor tree depreciation, nor interest on investment.

#### RATE OF CAPITALIZATION

This subject demands careful study; and many opinions exist as to the correct rate to be used. Many appraisers agree that 10% is the correct rate, and place the total grove value at ten times the net return to the grower after all costs and depreciation have been deducted. This would mean that a grove producing an average gross return to the grower of \$400.00 per year per acre, with costs and depreciation amounting to \$200.00, would be valued at \$2,000.00 per acre. Again one should consider the particular grove and vary the rate with the desirability of the property and the hazards involved. The owner is satisfied with a smaller return on his investment, if his orchard is free from frost and wind; if it is located in a desirable district with good roads, schools, and transportation facilities; if his soil is easily handled and of long proven fertility; and if the contour of the land affords easy irrigation.

A grower living on his place, and well satisfied with his grove, his neighborhood, and the independence of his existence, will capitalize his income at a very low rate, and price his grove accordingly. A citrus grove is essentially a commercial proposition, but the home or residential value must be considered in addition to its value as a purely commercial unit. This is a

very real factor, and represents the viewpoint of a resident owner operator.

The question may well be asked as to why the net income is capitalized to arrive at the combined value of land and trees. Why not determine the tree value, charge interest at a 12% to 14% rate on this tree investment, and then impute the remainder to land with water on a basis of 6%? The answer is that tree value is rather difficult to determine and that the final results are probably no more accurate when obtained this way.

For the purpose of depreciation, the value of trees may be derived from the acre investment charged to trees. This would include the original cost of planting, together with operating costs, and interest charges on the entire investment, less income received, up to the age of profitable production. From this age adequate annual depreciation should be taken. The tree value may vary from one-third to two-thirds of the total grove value, and may or may not represent the investment cost properly depreciated.

It can readily be seen that the method of computation which may be used is of much smaller consequence than the accuracy of the forecast of expected net returns. Here the opinion of the appraiser based on complete information, experience, and sound judgment is of major importance. The appraiser should also check his final opinion against recent sales of comparable groves in the vicinity.

#### DEPRECIATION

Trees do not last forever. The actual investment in trees in some districts may run from \$1,000.00 to \$1,500.00 per acre at the profitable bearing age of 8 or 10 years. The economic life may run from 30 to 40 years from that point, which means that a depreciation charge of \$25.00

to \$50.00 per acre must be made. It must be kept in mind that the profitable life expectancy of citrus trees varies over a wide range, and depends upon the district, the soil, the rootstock, and other factors. These must all be considered when estimating the depreciation rate. Many growers operate their groves as a permanent investment by replacing old decadent trees with new plantings as old trees gradually became unproductive, thus keeping the grove in continual production. Others interplant old groves with more profitable varieties, or with stock having better roots and buds. The younger trees gradually come into bearing as the older trees deteriorate and are removed. Under this system the renewal costs are found in the increased operating costs and are perhaps equivalent to the ordinary depreciation charge.

It should be stated under this heading that depreciation should be taken on pipe lines and distributing systems, and on pumping plants where the grower produces his own water.

#### VALUE OF MATURED FRUIT ON TREES

Consideration should be given to fruit on the trees which may be converted into cash within a period of sixty to ninety days. The value on the trees should be estimated and be reflected in the total value.

#### BUILDINGS

Any buildings located on the property should be appraised on a basis of cost of replacement less depreciation, provided that they are in harmony with the value of the orchard, and that they are worth their appraised value to the property. An expensive dwelling on a small orchard might have value as a country home, but it would have to be penalized if included in an orchard appraisal.

#### CONCLUSION

A short treatment of this subject does not afford an opportunity to expand upon the many details involved, nor to cover other phases of the subject. The appraiser is called upon to report his findings on the value of unplanted citrus land; on tree values for a base upon which to determine depreciation in Federal Income Tax Reports, and reports to the State Franchise Tax Commission. He must fix value of trees for condemnation purposes, for tax assessments, and in connection with suits brought for tree damages by various causes. He must also appraise young orchards of non-bearing age.

#### INFORMATION NEEDED BY APPRAISER OF CITRUS ORCHARDS

##### *Legal Description*

##### *Location of Property*

1. By streets or roads.
2. Distance from and location with reference to towns, boulevards, schools, packing houses, etc. (attach map).
3. Trend of growth and potential value for other purposes.

##### *Area and Dimensions*

1. Number of acres.
2. Frontage on road.
3. Depth.
4. Does the shape allow division into smaller parcels?

##### *Trees*

1. Variety of plantings.
  - A. Valencias.
    - a. Acres.
    - b. Age.
    - c. Number trees per acre.
    - d. System of planting.
  - B. Lemons.
    - a. Acres.
    - b. Age.
    - c. Number trees per acre.
    - d. System of planting.
  - C. Grapefruit.
    - a. Acres.
    - b. Age.
    - c. Number trees per acre.
    - d. System of planting.
  - D. Navels.
    - a. Acres.
    - b. Age.
    - c. Number trees per acre.
    - d. System of planting.



2. History of trees.
  - A. Rootstocks—variety.
  - B. Source of buds.
  - C. Permanent frost injury, if any.
  - D. Past care and management.
3. Condition of trees
  - A. General appearance (color, foliage, vigor).
  - B. Set of fruit.
  - C. Insect pests.
  - D. Root and bark diseases.
  - E. Deadwood.
  - F. Pruning (need of).
4. Mature fruit on trees.
  - A. Field box estimate.
  - B. Value on trees.
- D. Market value per share.
- E. Can stock be sold separate from land?
- F. Have water rights ever been questioned?
- G. How much water does each share call for?
- H. When or how often can water be put on property?
- I. What are the assessments?
7. Distributing system on grove.
  - A. Stands, gates, valves and outlets.
  - B. Length of run.
  - C. Ease of distribution.
8. Average annual rainfall.
9. Is domestic water available?

*Management*

1. Is it well managed?
2. How long under present management?

*Soil*

1. Texture.
  - A. Heavy.
  - B. Medium.
  - C. Light.
  - D. Sandy.
  - E. Gravelly.
2. Depth to and type of Subsoil. (use auger.)
  - A. Is subsoil impervious to water?
  - B. Is there hardpan or rock?
3. Natural Fertility.
4. Condition. Is it alive and active or dead?
5. Water relationship.
  - A. Does it take water readily?
  - B. Is it retentive of moisture?
  - C. Does it drain through?
  - D. Depth to water level.
6. Adaptability to Variety planted.
 

Crops grown on adjoining land.
7. Alkali?
8. Does it wash?
9. Does it overflow?

*Water*

1. Source (Gravity, pumped?)
  - A. Permanence.
  - B. Quantity.
  - C. Quality (is analysis available?).
2. Cost per inch hour.
3. Cost per acre annually.
4. Can all the land be irrigated?
5. If produced by Grower.
  - A. Depth of well.
  - B. Amount of lift.
  - C. Capacity of well.
  - D. Type of pump and value.
6. If produced by water company.
  - A. Name of Company.
  - B. Mutual or public utility.
  - C. Number of shares of stock for the property.

*Contour of Land*

1. Level, sloping, rolling, hilly?
2. Is it terraced?

*Surface Drainage*

Does contour provide for surface runoff?

*Elevation*

1. Above sea-level.
2. With respect to adjoining land.

*Frost*

1. History of frost in the locality.
2. Air-drainage.
3. Is the orchard heated? If so, how?
4. Are the adjoining orchards heated?

*Wind*

1. History of wind in the locality.
2. Windbreaks.

*Marketing Facilities*

1. What organization?
2. Distance of haul to packing house.

*Transportation*

1. Roads, boulevards, car lines, bus routes.
2. Road fronting property—width and how paved?

*Residential Value*

1. Type of houses in the vicinity.
2. Class of people.
3. Schools, churches, shopping center.
4. Community clubs.
5. Climatic conditions, humidity, summer and winter temperatures.
6. Mail route, milk and ice delivery.
7. Utilities—Telephone, gas, electricity.
8. Nuisances—High power lines, sewer farms, railroad right-of-way, noises, etc.

*Buildings and Other Improvements*

1. Description of, landscaping, fences, etc.
2. Replacement value less depreciation.
3. Value to the grove.
4. Insurance carried and rate.

*District Bonds (Improvement, drainage, irrigation.)*

1. Balance unpaid.
2. Years yet to run.
3. Annual payment principal and interest.
4. Contemplated?

**Assessed Valuation**

1. Land.
2. Trees.
3. Buildings.

**Taxes (Annual.)****Evidence of Title**

1. Contract of purchase or Deed.
2. Torrens Certificate or Title Insurance.

**Encumbrances**

1. Mortgage, Trust Deed, due date, interest rate.
2. Crop liens, judgments, attachments.
3. Is property leased?

**Reservations**

1. Oil rights?
2. Mineral rights?
3. Any other?

**Restrictions**

1. Building?
2. Race?
3. Any other?

**Recent Sales in the Vicinity****Returns to the Grower**

1. Yield in field boxes per acre (Average several years).
2. Yield last season in field boxes per acre.
3. Received from packing house per acre (Average several years).
4. Received last season per acre.

**Cost of Operation per acre (Average)**

1. Fertilizer.
2. Water.
3. Pest Control.
4. Frost protection.
5. Cultivation (Teams, tractor, labor).
6. Irrigating labor.
7. Pruning and individual tree care.
8. Taxes.
9. Insurance.
10. Maintenance and repairs.
11. Depreciation (buildings, equipment, pipe lines).
12. Management.
13. General expense.
14. Picking and hauling.

**Calculation of Value**

**Problem:** To determine the value of 20 acres of Valencia oranges with 19 year trees, having a crop of mature fruit not yet picked estimated at 500 boxes per acre.

**Buildings:** Six room house 10 years old with two car garage, tractor and tool shed.

Estimated annual yield in field boxes per acre ..... 540  
Estimated annual return to grower per acre at 90c per field box.....\$ 486.00

**Estimated operating costs per acre:**

Fertilizer .....\$46.00  
Water ..... 20.00  
Pest control ..... 30.00  
Frost protection ..... 25.00  
Cultivation (Team and tractor expense) ..... 35.00  
Irrigation labor ..... 4.00  
Pruning and tree care..... 7.00  
Taxes ..... 24.00  
Insurance ..... 2.00  
Maintenance and repairs..... 5.00  
Depreciation on tools, equipment, and ranch buildings, (House not included)..... 14.00  
Management ..... 7.00  
General expense ..... 5.00  
Picking and hauling..... 54.00

Total operating costs per acre ..... 278.00

Estimated net earnings per acre.....\$ 208.00  
Depreciation or replacement charge on trees per acre ..... 36.00

Expected annual net income after depreciation .....\$ 172.00

Value of land and trees per acre capitalized at 10%..... 1,720.00

Market value of comparable land with water and irrigating systems (by comparison) \$900.00 per acre. Value of trees (by difference) \$820.00 per acre. Original investment in trees at 8 years of age—\$1,200.00 per acre. This is arrived at by estimating the cost of planting, operating costs, and interest charges on entire investment, less income from crops up to a profitable age of 8 years. This value depreciated 11 years at 3% gives a depreciated tree value at age 19 years of \$800.00 per acre.

Value of land (including water, and pipe lines) and trees..... 34,440.00  
Value of buildings to the orchard..... 2,500.00  
Value of matured crop—10,000 boxes at 75c ..... 7,500.00

Total value .....\$44,440.00



# A New Approach to Rural Appraising

By HUDSON BURR

IN being so bold as to suggest even a slightly new approach to rural appraising, and in attempting to outline it in a comparatively short article, as of course this must necessarily be, I am only too well aware of the many pitfalls. It is assumed, therefore, that the readers of this Journal will receive it somewhat charitably, and will be especially aware that it is all obviously in an extremely preliminary and unfinished stage. For insofar as I have been able to discover, neither rural appraising nor rural appraisers have advanced along technical lines in anything like the same degree that has occurred in the urban field. We are still struggling in the extremely early period of trying to talk a fairly similar language, to understand and admit that a particular word or phrase should mean one thing to all of us and not be interpreted in a half dozen quite different ways. It will of course take much time to accomplish this, even partially.

It is no deep secret, I feel sure, that in the main and at the moment there can scarcely be claimed to exist in the United States a really adequate system of rural appraising, or in fact anything in that regard which can truly be entitled to serious consideration. Though it may sound flippant, I am tempted to describe our present appraisals as simply a "by guess and by God" procedure. Its chief advocate has been the old time land man who in some miraculous manner has been thought to have been born an appraiser. Much mystery has surrounded him. No one has been able to discover how or why he acquired such exceptional powers; but

everyone seems to admit, himself included, that he can stand quietly in the center of an American farm, allow a number of factors (no one knows how many) to flow through his head and then in a comparatively short while to stop that flow and write down the value of the land and buildings on the last line of a quite simple blank. No one questions the result. How can they? Has not this expert appraiser *said* its value is so and so. What more can the investor, land owner, or prospective purchaser desire? And so it has been done for many years.

I am not altogether attempting to belittle or ridicule the final figure which this mystic appraiser puts down as his value, but rather I am wondering if the time is not already upon us when far more proof of that figure must be supplied. Surely no one in the past has been able to review such an appraisal, to in any way pick it to pieces in order to make sure that all factors have really been taken into consideration, or how they have been weighed. It has simply been a "lump sum" guess, and one might take it or leave it alone.

Even slight investigation will show that various European countries are far ahead of America in the development of rural appraising. England, Germany, and Denmark have their systems and have had them for years. Does it not behoove us, therefore, to set about in a sincere attempt to bring some semblance of order out of our own situation? For an appraiser truly interested in his profession,—and surely it should be considered by the public as a profession,—there appears

to exist an opportunity nothing short of amazing. The field is wide open and, at least in my own opinion, is crying for someone somehow to point the way to far better things. The remainder of this article, therefore, is a description of certain principles of rural appraising recently adopted by one farm loan Company, interested in both the sale of lands owned and in the making of new mortgages. The system is centered in the main around the two thoughts just expressed, the first being a desire to make sure the appraiser has considered all the known factors, and secondly that he has set them down in such a coordinated way as to permit a Reviewer to agree or disagree with him. It is thus a system which first develops the facts and then the conclusions.

#### APPRAISAL COMMITTEE OF THE NATIONAL JOINT COMMITTEE ON RURAL CREDITS

In the Fall of 1933, in St. Louis, Missouri, there was formed under the leadership of Mr. D. Howard Doane of the Doane Agricultural Service a committee known as the National Joint Committee on Rural Credits. Its purpose was to study the more important problems basic to rural credits and by the use of sub-committees to publish in pamphlet form articles which it was hoped would assist in the solution of these problems. Represented on the committee were three main groups; creditors, debtors, and the middle group. The creditors were represented chiefly by Insurance Companies interested in loaning on farm lands and by the Federal Land Bank and Joint Stock Land Bank systems. The debtor group was represented by two of the leading farmer organizations, and the middle group by the American Society of Farm Managers, and the American Farm Economic Association. One of the sub-committees ap-

pointed by the Central Committee was that on Appraisals, and on it were representatives from the groups referred to. Three meetings were held during the winter of 1933-1934; and eventually there was published a preliminary report entitled "Standards of Practice for Rural Appraisers." While our system is based in the main on the conclusions of that Committee, it should be clearly stated that in quoting definitions and interpretations from its Report I am doing so entirely as an individual, for I am neither authorized nor qualified in any way to speak for the Committee as a whole. It would be very remiss and unappreciative of me, however, were I not to mention the Committee's work and to make it plain that one company has endeavored to construct an appraisal form on its findings.

#### DEFINITIONS

Real Estate Appraisers will immediately admit that the Committee was first obliged to agree upon certain definitions and procedures, for until that was successfully accomplished it could not hope to progress. I therefore wish to call attention to a few of the principal definitions, taken from the Standards referred to.

##### 1 *Rural Appraisal*

"An appraisal is the definite written detailed opinion of a qualified individual or group of individuals of the Basic Value of a rural property."

##### 2 *Basic Value*

"Basic Value is the worth of a property derived from such economic elements as Earnings, Location, and Home Uses."

##### 3 *Earnings*

"Earnings constitute that portion of the total income derived from the typical use of a property which can be assigned as payment for its use."

##### 4 *Kinds of Valuation*

"In this description of appraisal practice and procedure, it is assumed that there is but one kind

1. See Vol. II, No. 3, Page 260ff of this Journal.—Ed.



of appraisal and the value determined thereby is known as the Basic Value.

"The appraiser, however, is often commissioned to report on other kinds of value, which emphasize to a greater or less degree certain features of value, among which are Normal Sale Value, Forced Sale Value, Condemnation Value, Assessed Value, etc. The process by which these special values are arrived at is as follows; the property is first appraised in the ordinary manner to arrive at the Basic Value. There is then added to or deducted from this Basic Value an amount which reflects the special feature emphasized. The resulting value is designated as the value for the special purpose required. The appraisal report should show the Basic Value, as well as the special value reported. This practice tends to classify appraisal procedure and recognizes a common basis for all appraisals regardless of the purpose for which they are made. Since this method gives a common objective, it will tend to give appraisers a uniform method of approach and weighing of factors."

It is suggested that these definitions, as well as the paragraphs on "Kinds of Valuation," be kept in mind, for they are indeed the foundation upon which our system is built. If there is anything truly new in this approach, and if any one finding of the Appraisal Committee is to become helpful in the future to rural appraising, I am at least personally of the opinion that it lies in the conception of Basic Value. If that definition can stand the test and be found sufficiently sound, it should outstandingly assist appraisers in the search for a common and uniform approach. It is, so to speak, the original road along which all appraisers may travel together for a considerable distance, no matter what their ultimate goal may be. It is of course obvious that in the majority of cases a special kind of value will be sought, a few of which have been indicated, but if it is only possible to travel the same road until Basic Value has been completed and then (but not before then) to split and set about determining the special kind of value sought, it should indeed prove tremendously helpful. That hope is being purposely emphasized here.

## BASIC PRINCIPLES

Before considering procedures, I believe it will be helpful to inquire somewhat more intimately into the Basic Principles established by the foregoing definitions, for without an extremely clear understanding of these principles the form itself can scarcely be used intelligently.

*First:* Our definition of Basic Value says in effect that the worth of a rural property is derived from three chief economic elements. In explaining this to practical appraisers we attempt to liken Basic Value to a pool into which flow three large streams of value, carrying the elements of Earnings, Location, and Home Uses. We say that Basic Value is made up from any one or all of these elements and we urge that they be considered in a quite broad sense. This particularly applies to the element of Location. We attempt to make it clear that even though a rural property may have no value from actual Earnings, and therefore that the anticipated annual income under typical management may be less than the estimated yearly expenses, the property may still have a value secured from one or the other (or both) of the other two elements, Location and Home Uses. In fact, the only element to be found in Basic Value, under certain exceptional conditions, may come quite entirely from Location or from Home Uses alone.

*Second:* At this point I wish to backtrack a little and recall to you our first definition, i.e. that of a rural appraisal. It is discussed purposely after Basic Value in order to emphasize it. In the fewest words our definition says that an appraisal is an opinion of value. The Committee chose this definition only after lengthy discussion. The members were aware of the fact that, for instance, in Germany an appraisal is looked upon pos-

sibly as something of a scientific formula. In England, it is probable that the major emphasis is placed upon the earnings factor. And so it goes. The Committee thought, however, that it would be more in keeping with American appraisal attitudes to decide that an appraisal is most properly the *thought-through* personal "opinion" of the appraiser. That definition is basic to our system and is possibly the chief point which we state and restate to our field men.

*Third:* Consequently, and again referring to Basic Value, if in the opinion of the appraiser the property being valued has no worth derived from earnings, then he is privileged to choose from what other source value is found to be present, the only limitation being that we say in the main there are but three broad elements to be considered, i.e., Earnings, Location, and Home Uses. This definition of Basic Value has within the past few months been subjected to as much of a test as possible. We are well aware of the fact that if it is in error then our entire system is likely to collapse. It is being explained here at such length entirely with the hope that if this topic is of sufficient interest to the members of the American Institute of Real Estate Appraisers someone will be willing and able to point out our error, if one exists. It should be remembered, however, that we interpret the three elements of value in as broad a sense as possible, with the belief that there can be included under one or another all the factors with which rural appraisers are confronted or are in any way aware.

*Fourth:* As another basic principle, may we now look more closely into the definition of Earnings, and especially the phrase "typical use of a property." There is possibly no more difficult task involved in our system than the explanation to field

men of what is meant by "typical." I judge that no such effort is necessary for urban appraisers. It is very easy for our field men to believe we mean "average use." Such is not at all the case, however. We describe a typical tenant, for instance, as that tenant most likely to be found in numbers in a particular community. He represents the crowd, so to speak. If the community is progressive and well-informed, the typical tenant or operator found there will be well above the average. Conversely, if the community surrounding the farm is backward then the typical tenant may fall into a quite low bracket. It should also be made clear that in deciding upon the typical man we are necessarily limited to the consideration of a reasonably small area. This is based on the experience that operators or tenants for particular farms tend to come from fairly close by. There are, of course, exceptions, but we believe this is accurate in the main.

Our so-called typical tenant is in turn most likely to farm the property in a typical way, based again upon the experience and practice developed in the community fairly adjacent to the property. Therefore, a clear understanding is essential to the appraiser that in our earnings statement we base crop rotations and farming practices upon the typical tenant and his anticipated typical handling of the land. The appraiser is told he may assume that the present tenant or operator of the land on the day of appraisal will not remain. The exact crops or exact methods used by the present tenant are therefore not to be considered, unless they are found to be typical. When good property in a good community is being badly handled by the present operator, the appraiser is privileged to assume better rotations, with better yields, and with a higher type operator.

It should be made clear at this point, however, that in no way do we wish to break one well-established rural appraising law, one possibly in more universal agreement than any other, which is that an appraiser is never justified in becoming a prophet. If I have stated the correct use of "typical," I trust our appraiser will not be accused of unwarranted anticipation. We simply permit him to take advantage of well-established experience that good farms and good farmers tend to flow together, and conversely that poor land usually has poor operation. Every appraiser is obliged to assume that certain soils will in the future, with certain handling, yield certain crops. Surely he would not be justified in assuming that over a period of years any particular farm will receive the highest type of management. Neither do we consider it necessary for him to assume that the farm will receive less careful or intelligent management than the typical.

*Fifth:* It is no doubt advisable at this point to state that our system uses the capitalization of net earnings to determine Earnings Value. The example in our earnings statement shows this clearly, but let me explain that after a typical crop rotation has been decided upon, with yields which should result from that crop rotation (of course after a thorough study of soil types), the statement assumes the use of average crop prices determined over a period of the last five years. By following the statement through it will be seen that the owner's gross income is first determined, and then, after his average annual expenses have been deducted, the owners net income is capitalized to establish the Earnings Value.

A great deal could be written on such important decisions as how best to determine average prices, also as to what is

the proper capitalization rate. Some may doubt whether the landlord-tenant division of crops is correct, and of course much more discussion on the question of "typical use" would be desirable; but in an article of this kind, it is obviously impossible and impractical to attempt it. I am obliged to assume that a farm earnings statement is in no way an unfamiliar procedure. It is indeed a repetition again to say that "typical" management and use is determined, that the appraiser is supplied by the central office with average prices at the farm for each crop (based on the preceeding five years), that the central office names the capitalization rate for the appraiser, and that it likewise requires him to use the landlord-tenant division of crops in order to keep his earnings statement as simple as possible.

We have not thought it logical to use average commodity prices tied into a static period such as that of 1909-1914, which is used in the Federal Land Bank system. We have chosen to average prices between 1929 and 1934 and we expect to adjust and correct them at the close of each year.

For our capitalization rate we have chosen the going interest rate charged by the majority of farm mortgage lenders in the particular area in which the farm lies. Involved in our capitalization rate are as few factors as possible, which in itself permits of its use over a rather wide territory. The going interest rate for farm mortgages (other than the Federal system) tends to reflect the elements of non-liquidity of a mortgage as compared to a Government bond, and likewise the risk element. With a Government bond assumed to be entirely safe as to principal and interest, it is immediately obvious that an investment based on an appraisal made by an individual is subject to a risk fac-

tor. In our example you will note a 5% capitalization rate has been used, which appears accurate for Central Illinois at this time and reflects the return expected from a mortgage by most lenders after considering the two factors of non-liquidity and risk.

#### LOCATION AND HOME USE ADJUSTMENTS

Once the Earnings Value has been established, we then come to the further elements of Location and Home Uses, both of which as previously stated should be considered in as broad a sense as possible. They are additional and contributing elements of value, which together with Earnings Value make up our Basic Value.

Possibly the foremost factor again to make clear, in this connection, is our original definition that an appraisal is an opinion. We say, in effect, to the appraiser that after the Earnings Value has been established he should then consider the additional elements of Location and Home Uses and if they are present and contribute to the pool of Basic Value he should show them. Mechanically this is handled on a per acre basis, for we believe that most appraisers are more able accurately to visualize the effect of Location and Home Uses in that manner rather than to attempt to judge them as additions or subtractions to money income. In another sense, it will be obvious that in their final analysis they tend to raise or lower the rate of capitalization.

Our example will indicate that after the appraiser determined his Earnings Value he believed that additional elements were present which affected it. This is why in the main we have considered these as "Adjustments," although we are not altogether pleased with the word. As previously stated, many poor farms may have no net income to capitalize, which there-

fore establishes a zero Earnings Value. Consequently, it may seem inaccurate to speak of adjusting this, because nothing exists to adjust. The only element of value may be in its Location, or in its Home Uses. This is emphasized only because we have recently found it a difficult point to cover with our field men. I am convinced that generally speaking the appraiser should attempt to give an actual per acre value to Location and to Home Uses, thinking of them mostly in that light rather than as Adjustments, and of course always being obliged to do so when the property has failed to establish an Earnings Value.

In the form we are using no effort has been made to separate the influences of Location and of Home Uses. The guides set up as assistance to the appraiser combine the two elements, and additional space is provided in the form so that any exceptional circumstances may readily be included. In fact, the appraiser is repeatedly cautioned that it is his responsibility to include all Location and Home Use factors which in his individual opinion have any bearing on Basic Value. In this way the widest degree of liberty is assured, and in fact it is insisted upon.

Criticism has developed in some quarters and doubt is expressed as to whether a property can have an actual Basic Value provided it has no Earnings Value, where the expenses exceed the anticipated income. We are then obliged to fall back upon our original definition of Basic Value, and to say that when there is no net income to capitalize that simply means there is no contribution to our pool from the Earnings element, but that there should ordinarily be some elements of value in either Location or Home Uses which may properly establish a Basic Value, small though that figure may be.



The skillful handling of these Adjustments is undoubtedly one of the most difficult things to teach appraisers. It will perhaps be impossible to teach it to the old time appraiser, although strange as it may sound the mystic in his "lump sum" guess was doing exactly the same thing which we are now asking him to put down on paper, and which he so often declares is impossible. It is likewise hoped that if this system has merit we will tend to build up in the future an experience which will help us materially in more accurately determining the influence of Location on Basic Value. When speaking of Location we do not mean only its specific distance from the nearest town, over a good or bad road, but also the influence of its general location. A somewhat clearer example is that a particular farm may be located far from a grain elevator, or a railroad, and on a bad mud lane. In its broad location sense it may still be located say within 20 miles of a very large metropolitan center. The appraiser is therefore obliged to consider both the immediate and the broad viewpoint of Location. One may be pessimistic while the other is optimistic.

#### ADJUSTMENTS FOR BUILDINGS

Another factor on which it is difficult to speak with certainty is how best to handle the value of farm buildings under our Basic Value. It may be claimed by some that because of the capitalization of net earnings at least certain "use" aspects of the buildings have thereby been taken into consideration. A rural property growing corn and being without a crib is at a decided disadvantage. The crop must be marketed immediately. A farm with buildings tends to increase yields. And so it goes. Questions difficult to decide are to what extent yields are actually benefited by the presence of buildings, and

likewise to what extent the appraiser subconsciously accounts for them in spite of himself.

The problem would be much simpler, of course, if all farms had buildings, and likewise if some definite rental could be clearly attributed to them. It is a fact, however, that in many communities farms without buildings rent to adjoining owners or tenants on a share basis for fully as much as those with buildings. To that extent those properties acquire the "use" of buildings without paying for it. There can be little doubt that our Basic Value, as defined, absorbs the Value of Buildings in it provided an adequate rental is included in the income part of the statement, for maintenance and other building cost items are listed in the expense division. However, it is still somewhat exceptional for buildings to return the owner a stated income, and it should also be remembered that we have adopted the landlord-tenant division of crops. For a landlord living in town, with a tenant operating the farm, it is unusual for him to receive either a larger share of crops or more money income because of buildings. It, therefore, became necessary for us to decide this question rather arbitrarily, until such time as research and experience will answer it more intelligently. Assuming that no actual building rental can be shown in the income statement, and because of the fact that maintenance expenses are included, it has then seemed reasonable to add in our Basic Value for what we call the cost of an "adequate set of buildings." For a practical appraiser this is not a difficult matter; and if, for instance, on a quarter-section of land in the Corn Belt the cost of an adequate set of buildings is \$4,000.00, we add that figure in our Basic Value, provided the appraiser finds at

least that much building value actually present. If the actual buildings can only be valued at \$2,000.00, then he is only permitted to include that sum. If, on the other hand, the appraised replacement value of the buildings is \$6,000.00, we include only the cost of an adequate set (\$4,000.00) in our Basic Value; and, then, in our Sale Price, a description of which follows, the appraiser accounts for the difference between \$4,000.00 and \$6,000.00, provided that in his "opinion" there is a saleability factor present which (because of the buildings) will permit of an increased sale price.

#### KINDS OF VALUATION

The last factor to consider is that of special kinds of value,—and it is indeed a most important one. We should think back to our original statement that through the point to which Basic Value is finally completed there is in reality but one kind of an appraisal. We then realize that special kinds of value are usually required. In our form we show a so-called "Recommended Sale Price" which is very close to what might ordinarily be considered a Normal Sale Value. We eliminate from our consideration, until after Basic Value has been determined, any of the well-established saleability factors. It may in fact be that after Basic Value is determined the appraiser then tends to draw away from any further value to which he should be expected actually to certify, although that is a point open for much discussion. It is realized, however, that through Basic Value he has in the main been dealing with factors which are more subject to proof than a Sale Price can possibly be.

In determining Basic Value our appraiser uses a five year average of crop prices. These may be considerably above or below actual crop prices quoted at the time of appraisal. Normal Sale Value pre-supposes the securing of a price within a reasonable time, with the property changing hands from a willing seller to a desirous purchaser. It, therefore, holds that in naming our Sale Price the appraiser is justified in taking advantage of the fact that, for instance, while the average price of corn in Central Illinois between 1929 and 1934 was say 45c a bushel at the farm, it is true that in November of 1934 corn is actually netting the farmer 65c a bushel. Our Recommended Sale Price should reflect that condition. Prevailing optimism or pessimism in the future are other factors which come into play at this point,—and in fact a multitude of more or less intangible items. Reasons for naming a Sale Price above or below the Basic Value must of course be clearly stated by the Appraiser, but in all his considerations he has at least established an anchor to which to tie, i.e. Basic Value, and we believe that with such an anchor he can more logically and more accurately deal with these many intangibles than would otherwise be possible.

It will, of course, be inadvisable for me even to attempt to comment on the many other special kinds of value. The chief thing I wish to show is that these special values are not to be considered by the appraiser until his Basic Value has been determined; and, then, that entirely new and different factors are to be accounted for.

## EXAMPLE

A Corn Belt farm of 160 acres, of which 35 acres are in rolling permanent pasture. The remaining 125 acres are fairly good level land, but of a type of soil that requires a careful crop rotation. The County corn yield for the past five years has been 35 bushels per acre, oats 40 bushels.

The buildings are poor but serviceable, and are considered rather inadequate.

The farm is located six miles from a small village, at which point there is only one good grain elevator. The roads to town are oiled dirt.

There is a quite good country grade school adjoining the farm and a church is one-half mile distant.

The community as a whole has not progressed. The prevailing nationality is American. No particular community pride exists.

For the past few years hog cholera has been quite prevalent in the neighborhood. Many farmers have cut down their herds, although ordinarily considerable livestock is raised.

**INCOME**—Based on typical management, with present condition of farm and average community yields being given consideration.

Crop	Acres	Yield	Price	Value	Rent Share	Owner's Part
1. Corn .....	60	40 bu.	\$ .50	\$1,200	1/2	\$ 600
2. Oats .....	30	40 bu.	.40	480	1/2	240
3. Clover .....	30	2 T.	8.00	480	1/2	240
4. Alfalfa .....	5	4 T.	10.00	200	1/3	65
5. Pasture and Buildings	35		5.00		all	175
	<u>160</u>					<u>\$1,320</u>

**EXPENSE**—Typical management over a period of years.

1. Taxes at \$1.00 per acre.....	\$160
2. Insurance .....	30
3. Maintenance at \$1.00 per acre.....	160
4. Management at \$0.75 per acre.....	120
5. Clover and alfalfa seed.....	30
	<u>\$500</u>
	500

Net return to owner ..... \$ 820

Capitalized at 5% (\$820 x 20)—EARNINGS VALUE ..... 16,400

**ADJUSTMENTS FOR LOCATION AND HOME USES**—on per acre basis.

	Plus	Minus
1. Markets, Roads and Transportation.....		\$5
2. Educational and Religious Facilities.....	\$2	..
3. Community .....		3
4. Industrial Features .....		..
5. Physical Features .....		..
6. Nuisances and Hazards.....		1
	<hr/> \$2+	<hr/> \$9—
Effect of Adjustments (negative \$7 x 160).....		\$ 1,120
		<hr/>
		Sub-total.....\$15,280
Adjustment for buildings (as they are inadequate, add actual replacement value) .....		2,000
		<hr/>
		BASIC VALUE .....\$17,280
RECOMMENDED SALE PRICE .....		20,000

Reasons for increase over Basic Value—present grain and forage prices are materially higher than those used in Income Statement. Many of the community difficulties have centered around closed banks, but this will probably be corrected in the near future. It is reported that quite a number of Amishmen have only recently moved into the community and it should be possible to interest others. While the livestock troubles are now being talked about they should be overcome eventually.





# Consequential Damage to An Industrial Building

By CUTHBERT E. REEVES, M. A. I.

**A**LTHOUGH the case about to be discussed is small in dollar value, it presents several interesting features. The inception of the litigation was novel, itself, arising from the failure of a title insurance company to discharge the liability to its insuree incurred by a faulty title.

In 1927, a certain corporation purchased the parcel of land shown on the illustrative sketch herewith as having 105.5 frontage on Genesee Street in Buffalo, New York, at a short distance East of the intersection of that street with Jefferson Avenue, a sub-center of commercial activity.

The westerly 100.5' of this parcel is covered by two steel-frame and brick buildings; the westerly one, in which we have but a passing interest, is 50' x 150' deep to an alley at the rear, paved to its full width of 20'. This building is 2 stories high, and is operated as a separate unit, being presently under lease to another corporation operating a furniture store.

The easterly building is also 50' x 150' to the alley, but has 3 stories, and a small basement at the rear, housing a boiler and coal bin. Prior to purchase by my client, this building had been used as a knitting mill, and the easterly wall was fully 50% steel sash construction for a depth of 120' from the street; the 5' of vacant land presumed to remain abutting this wall supposedly insured light, ventilation, and access along said wall.

The purchaser proceeded to spend about \$18,000.00 in improvements to the easterly building, putting in concrete floors, build-

ing refrigerating, and smoke rooms, and changing sprinklers to the dry pipe system. This was done so that a bottling plant for soft drinks could be operated on the first floor, and fish and other food products could be smoked and otherwise prepared upon the upper floors.

At this time, the purchaser sought to secure the removal of several small buildings which encroach upon the 5' strip, as shown on the sketch. The abutting owner, however, proved that the strip in question was actually his property; the purchaser then turned to its insurer title company to make good its default.

The title company secured for its insuree an easement 2' wide by 120' deep, to cover equipment, such as ventilating pipes, indispensable to its operations.

They were, however, unable to agree upon the additional compensation to be made, and the case was duly prepared and tried in state court. It seemed to me then, and I am still of the opinion, that the relatively small amount at stake should have been paid forthwith to avoid the unfavorable publicity given as to the value of title insurance.

It was soon apparent that the two sides to the argument were not far apart as to the value of the land lost to my client, but we were, relatively, in wide disagreement as to the amount of damages to the building consequent to the loss of this 5' strip.

My hypothesis was that the minimum measure of damage was that sum of money necessary to supply the facilities to the building of which it had been deprived. These consist of light, ventilation, and access. Although the strip could be used for

SUBJECT

DAMAGE TO LENDNER PROPERTY, BUFFALO

NO

2

COMPILED BY

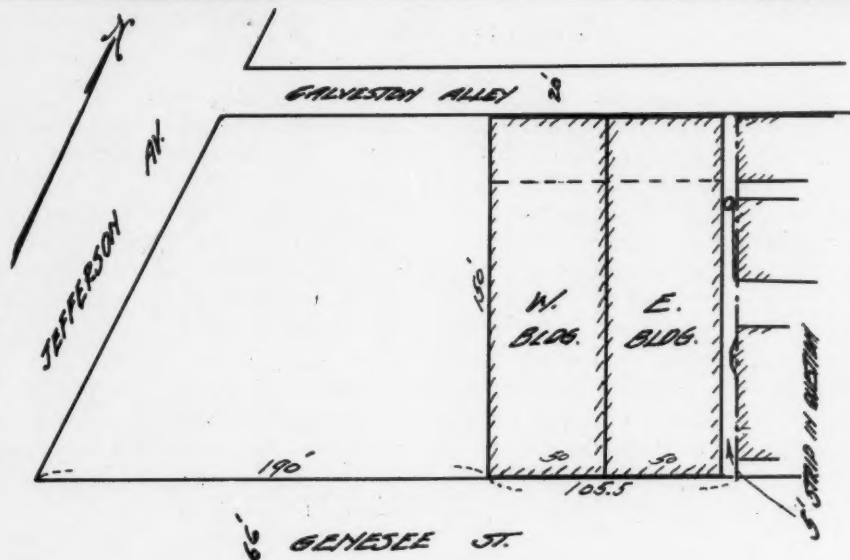
G. R. RICH

SERIAL

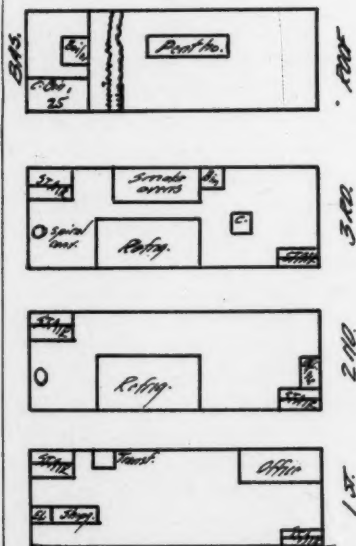
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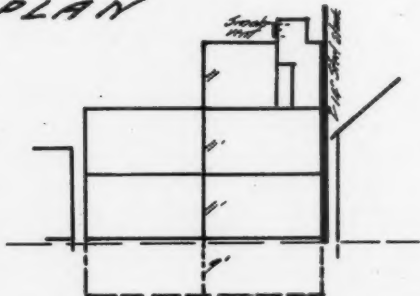
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PLAN



FLOOR PLANS



CROSS-SECTION

access, no such use had been made or intended, and, to be conservative, no claim for such, per se, was made by me.

The deprivation of light and ventilation was a definite damage to this building as designed and operated, and my analysis of the cost to supply equivalent facilities follows:

1. Even had the abutting owner built 5' away to the typical height in this district, the installation of factory-ribbed or prism glass in the sash would have insured good lighting from the 5' area-way to approximately  $\frac{1}{3}$  the width of the first floor, and to  $\frac{1}{2}$  the width of the 2nd and 3rd floors, for the 120' of length in which sash had been installed.

2. In this latitude, a well-lighted factory building requires artificial lighting for only  $3\frac{1}{2}$  hours per day for about 300 days per year; therefore to work a 10-hour day in this building, we must now supply artificial light for  $6\frac{1}{2}$  hours more for each of 300 days, or 1,950 hours per year.

3. Assuming that we must supply this additional lighting to 1,500 square feet ( $15 \times 100$ ) on the first floor, and 2,500 square feet ( $25 \times 100$ ) on each of the 2nd and 3rd floors, we have a total of 6,500 square feet of floor to provide for.

4. Adequate lighting requires one watt per square foot or 6,500 watts =  $6\frac{1}{2}$  KW.

5.  $6\frac{1}{2}$  KW for 1,950 hours per year = 12,675 KWH.

6. Assuming a primary rate of 1c per KWH, the cost of current is \$127.00.

7. Adding for lamp renewals, etc., this may be taken as \$140.00 per year. Unobstructed windows along the west side of the 3rd floor now provide ample ventilation there, and as we are dealing primarily with the present, no estimate is made for the cost of providing artificial ventilation on that floor, although the addition of another story to the westerly building would necessitate some such provision.

8. The air should be changed 4 times per hour; to do this on the 15,000 square foot of 1st and 2nd floors requires 600,000 cubic feet ( $15,000 \times 10' \times 4'$ ) or 10,000 cubic feet per minute.

9. For this, a 36" fan driven by electric motor is necessary on each floor, and, with the accessory ducts, may be figured at \$150.00 per thousand cubic feet per minute, or \$1,500.00.

10. Interest, maintenance, and depreciation on this sum at 15%, costs per year.....\$225.00

11. Electric energy at  $1\frac{1}{2}$  KW for 10 hours for 300 days = 4,500 KWH: at 1c this = ..... 45.00

12. Hence, the total cost to ventilate, per year = .....\$270.00

13. From item 7 total cost to light, per year = .....\$140.00

14. and the gross cost to light and ventilate per year = .....\$410.00

However, if we contemplate devoting the 5' strip of land to providing light and ventilation, we must compute the offsetting charge for such use.

15. Adopting \$200.00 as the base price for a foot-front of 100' depth, the increment due to 150' depth is 22%, or.....\$ 44.00  
A 20' alley at the rear, according to my practice, adds 11% to the..... 244.00  
making the price per foot-front..... 271.00

Thus, the 5' strip is worth.....\$1,355.00

16. Land of this character should earn 6%, and the interest charge therefore is.....\$ 81.00

17. Taxes may be taken as 3%, or.... 41.00

18. and the total charge for land = ...\$122.00

19. Deducting this \$122.00 from the computed gross additional cost of \$410.00, in item 14, we find that the net additional annual cost to

20. operate the easterly building is \$288.00. Inasmuch as this sum (\$288.00) represents a definite increase in operating cost and a consequent diminution in net revenue to the occupant of this building it may be capitalized at a low rate, say 5%. Direct capitalization

21. at that rate produces \$5,760.00; if, more technically correct, we treat the \$288.00 difference in operation as an annuity during an estimated

22. expectancy for this building of 40 years—at 5%, its present value is \$4,940.00 ( $17.159 \times \$288.00$ ).

As a check upon this deduction that the consequential damage to the building is about \$5,000.00, let us assume that the loss of this 5' strip reduces the rentability of the building for industrial-commercial purposes to the extent of 10%. The westerly building is now (1930) rented for 32c per square foot of floor area, per year. At 50c for the first floor and 20c for the two upper floors, the yearly rental to be expected from the easterly building would be \$6,750.00; a 10% reduction in this would mean \$675.00 yearly, which capitalized at 12% (a safe rate for gross rental)

23. equals \$5,625.00 capital value.

Another check may be made by comparing the \$5,000.00 estimated damage with the total value of the structure. Its volume is 260,000 cubic feet, which at 25c gives a reproduction cost new of \$65,000.00; inasmuch as this building was remodeled in 1927, its effective age in 1930 was but 3 years and a reduction for depreciation to \$60,000.00 is quite adequate. The \$5,000.00 thus may be viewed as 8% of the value of the building affected—certainly a reasonable allowance.

Now let us revert to the partial compensation proffered by the insurer in the easement which permits the maintenance of just such ventilating flues as we have hypothecated, and also affords a little direct ventilation and light. The area of this (2'  $\times$  120') is 32% of the 5' strip lost to the insuree, but the ratio of its value is obviously much less, due to its limited utility and lack of permanency. It does relieve the insuree from the necessity of cutting through floors to ventilate, but he still must incur all of the expense set forth in item 12, and most of that in item 13. Allowing 20% reduction in the computed damage of \$5,000.00 for this easement (which, by the way, cost the title company \$2,000.00) the compensated

25. damage to the building becomes \$4,000.00.

Reviewing the foregoing, we find that the land actually lost has a value of \$1,355.00 (item 15), the gross consequential damage to building is \$5,000.00 (item 22), the easement compensates to extent of \$1,000, the net consequential damage to the building is \$4,000 (item 25) and

26. the total uncompensated damage is \$5,355.00.

While some of the foregoing figures and symbols may seem to require technical knowledge, none of the reasoning set forth

is beyond the ken of the man who properly holds membership in this Institute. The development of that reasoning into units of equipment, and subsequently into dollars, may be delegated to technical consultants at a small expenditure of time, trouble, and money.

Some curious reader will want to know to what avail was my careful approach to this problem, as reflected by the decision. Unfortunately, as is too often the case, the court compromised between the claims made by the opposing parties to the dispute. That, however, need not deter us from endeavoring to apply intelligent methods which produce defensible results. The time is rapidly approaching when the courts and commissions will, themselves, demand that an expert witness furnish more than a bare assertion based "upon my long experience, and my judgment."





# Analysis of Office Building Expense

By GEORGE A. KUHN, M. A. I.

**D**URING the past few years of crumbling values in office buildings, due to (1) increased vacancy, (2) declining rentals, and (3) initial ignorance of what constitutes the expense of operating and maintaining an office building, no doubt, a great many appraisers have been scanning their previous office building appraisals and putting the question to themselves, "Why haven't my appraisals on office buildings stood up?"

We all recognize that it is expecting a great deal of an appraiser to make his ideas of values stand the acid test of the depression (Which I am wont to call our *late unpleasantness*); but the discrepancy in values has been too great. The owner's equity (when, as, and if invested) was wiped out,—then the Preferred Stockholders (we were still paying 3% instead of 6% on the first preferred, having forgotten about the retirements we contracted to pay). Gradually the 3% was thrown to the discard. After the preferred stockholders' protective committee had had numerous meetings, they lost interest and put it up to the building manager to deal direct with the bondholders' protective committee. This committee functioned for a time, successively extending maturities, then reducing the interest rate, and finally throwing up the sponge and giving the job to the building manager of dealing direct with the fee simple title owner. He wasn't getting the rental under his 99-year lease promptly; and, after worrying about the payment of merely operating expenses and taxes, he finally decided to let the property revert to the state to see what could be gotten out of it at a tax

sale to satisfy delinquent taxes. The only step left which to my knowledge has not been taken is for the state to throw up its hands and give it back to the Indians.

## KNOWLEDGE OF COSTS FUNDAMENTAL

True, declining income has been a tremendous factor, one which ranks first in the causes which brought about this sad state of affairs. But that is not the only cause. I imagine all appraisers used the brick and mortar plus ground value method merely as a check against the far more important income and expense method of appraisal of office buildings and therefore can go over their previous work to locate their mistakes. Mind you, I place as Number One the reduction in income; but let them look a little further into their figures.

On order to stabilize rentals to some degree a great many cities, working through their local associations of Building Owners and Managers, are setting up formulas to determine what their costs are. Can you imagine a \$9,000,000,000.00 industry waiting until this late date to put in uniform cost accounting to include *everything*? I want to give due credit to the National Association of Building Owners and Managers for the splendid work which it has done along this line. The fault lies first with the individual managers of office buildings who did not follow through with the information at their command and secondly with the appraisers who, if they knew that such information existed, in most instances did not take the trouble to avail themselves of it, or if they did, certainly did not make in-

telligent use of it. I dare say that if an intelligent analysis of "the annual cost per square foot of rentable area" had been made before starting construction of an office building in the last ten years, 25% of them would never have been built.

Office Building Expenditure naturally divides itself into four classifications:

1. Operating
2. Fixed charges
3. Depreciation and obsolescence
4. Capital requirements

A detailed analysis should include the following subdivisions:

- A. *Administration*
  - a. Salaries and commissions
  - b. Officers' salaries
  - c. Office expense
  - d. Advertising
  - e. Legal
  - f. Printing
- B. *Janitor Department*
  - a. Wages
  - b. Supplies
- C. *Elevator Department*
  - a. Wages
  - b. Power
  - c. Maintenance
- D. *Engineering Department*
  - a. Wages
  - b. Supplies
  - c. Power
  - d. Steam heat
  - e. Fuel
- E. *Electric Lighting*
  - a. Current
  - b. Lamps
- F. *Maintenance, Repairs, and Alterations*
  - a. Painting
  - b. Plumbing and steam fitting
  - c. Carpentry
  - d. Tile and plastering
  - e. Electric fittings
  - f. Hardware
  - g. Shades and awnings
  - h. Rubbish removal
  - i. Glazing
  - j. Exterior
  - k. Alterations for tenants
- G. *General*
  - a. Water
  - b. Gas

- c. Refrigeration
- d. Towels
- e. Toilet room supplies
- f. Watchmen service
- g. Miscellaneous

#### TOTAL COST OF OPERATING

1. *Fixed charges*
  - A. Ground rent
  - B. Taxes (state and county)
  - C. Gross income tax (state)
  - D. Insurance
2. *Capital requirements*
  - A. Interest on mortgage
  - B. Interest on short term indebtedness
  - C. Dividends
  - D. Federal income tax

You will note that I have omitted (3) Depreciation and Obsolescence because that is going to be my "Theme Song." How many times have you heard persons make the remark that Depreciation and Obsolescence is just a bookkeeping entry not actually chargeable to expense,—something that you figure up as high as possible to keep from paying Federal Income Tax. (They were thinking of the halcyon days prior to 1930). The common usages to which the Depreciation and Obsolescence fund were generally put, and admittedly so, were:

1. Mortgage or Bond Retirement
2. Payment of Preferred Stock Maturities
3. Preferred Stock Dividends
4. Common Stock Dividends

The only question asked was, "Will, what is left in the bank take care of our expenses *next month*?" And I venture to say most appraisers accepted this as good accounting practice if they thought of it at all. How many office buildings do you know, or how many appraisals have you seen which insisted on a separate fund,—not *on the books* but *in the bank*,—to take care of such items as:

1. Elevator renewal
  - A. Cabs and enclosures
  - B. Machinery
2. Change to scientific light fixtures

3. Modernization of lobby
4. Plumbing lines and fixtures
5. Air conditioning
6. etc., ad infinitum

No indeed! When such expenditures are faced one of two things occurs, either they are not done, or it resolves itself into a major financing operation. Obsolescence in most instances is a much larger factor than depreciation. The elevators will still run (yes, at a speed of 500 feet instead of 750 to 1,000 feet per minute); the cabs are O.K. (one can think only of a "sea-going hack" to compare with some of the wooden cabs in operation); the light fixtures still prevent one from working in the dark (true, at about 30% efficiency considering the power used); no flies on that lobby (no it is still a passageway to the elevators, reached by several worn-out marble steps, decorated in rococo style with abominable lighting fixtures shedding their dull yellow glow over this depressing scene). Old Man Obsolescence has crept in and the competition of newer structures has ushered him right down to a front seat where the audience can't enjoy the performance for looking at his shiny bald head.

To my own personal knowledge three well-specified office buildings in our city were obsolete in one or more items before they were finished. But, you say, there aren't going to be any new office buildings constructed in the near future. To which I answer, that is more or less conjecture in the first place and in the second place *modernization* is the cry of the hour; and one old building modernized has just as big an influence on the balance of the properties as a new building specified up to the minute. Compare just two items of the specifications of the new Field Building in Chicago with those same items in other properties, namely—elevators and air conditioning. If they don't match up,

your building is obsolete in those two particulars. And tomorrow the Field Building's air conditioning system is going to be obsolete. *NO*. Depreciation and Obsolescence is not a bookkeeping entry, *decidedly no!*

Inadequate Depreciation and Obsolescence Fund in the bank oftentimes leads to the following vicious circle: Depreciation and Obsolescence start in their devious work and soon the results come to the conscious or subconscious notice of the tenants. They either get careless themselves, forget to pay rent, or lose their pride in the location of their office and move out, and so the income goes down. Taking care of Depreciation and Obsolescence wasn't in the picture before; and, now, with reduced income, expense must be cut—so it comes out of operation. Tenants notice operation slipping; and the same story is repeated, etc., etc., until gradually the property slides from Class A to Class B and so on down the alphabet.

Another favorite argument has always been that the increment in value of the land has always offset Depreciation and Obsolescence of the buildings. My only answer to that is that such a statement hasn't proven true over the last few years.

#### VACANCY AND CREDIT RESERVES

Just one word about an item which is not strictly speaking an expense (really should be deducted from gross rentals before figuring expense and deducting for net income); the item of "Vacancy Reserve." In office building practice, up until recently, this item was generally figured at 10% of the gross rentals. However with an acknowledged vacancy of 27.57% over the United States (which every one feels or hopes is abnormal) many persons well versed in the industry

feel that over a period of the next five to fifteen years that figure should be increased to 15% and some even say 20%.

Closely allied to "Vacancy Reserve" is another item which has found its way into Office Building parlance in the last few years: "Reserve for Credit Losses." Until recently, if our office can be taken as any criterion, credit losses in all properties were confined to an amount equal to one-half of 1% of the gross rental. Now in round table discussion the consensus of opinion seems to be that a property occupied by a diversified tenancy having a credit loss of 10% or under is in better than average condition with respect to

collections. So I conclude that some provision must be made for credit losses.

#### SUMMARY

Appraisers of Office Buildings must scrutinize their figures on Expense with a finer magnifying glass than in the past to give a correct opinion of value, good not only for yesterday or today, but also for tomorrow,—paying particular attention to the items of Depreciation and Obsolescence and not forgetting Vacancy Reserve and Reserve for the Credit Losses in addition to the well-established expenses included in Operation, Fixed Charges, and Capital Requirement.



## Some Thoughts of Things

FROM IVAN A. THORSON'S ECONOMICS OF REAL ESTATE AND SIMPLIFIED APPRAISAL COURSE

1. Is there anything of such material importance we know so little about as Real Estate?

2. Ask ten people to give you their definition of Value and you will likely get ten different answers. There are over twenty different definitions of "Market Value of Land" in as many State statutes.

3. The "Market Value" of ordinary commodities and securities is the price at which they sell at the present moment. Utility value is something else.

4. Real Estate's lack of homogeneity (no two parcels exactly the same) effectively bars it from having "market value" in the sense that commodities and securities have market value. That is why real estate can not be listed on the "Stock Exchange."

5. Calling a horse a cow need not deceive us if we know that a horse is meant, but calling an animal a cow-horse would be confusing. To designate two distinct value concepts as being "market value" as do so many of our statutes and Court decisions, certainly does mix things up.

6. However, to confuse cost with value, as most assessors do when they substitute reproduction cost for both market value and utility value, become little short of tragic. It often results in outright confiscation.

7. By a peculiar twist of reasoning (if indeed any reasoning has ever been employed in this

connection), assessors have taxed buildings on the cost of producing them, although the buildings, because the wrong kind of improvement, may have added nothing to the value of the lot, or may have outlived their usefulness.

8. Once built, the component parts of the building (bricks, girders, etc.) have ceased to be personal property, which may be shipped about to the most favorable markets; they have become fixed (real) property, with an earning capacity limited by location, competition, management, efficiency, etc.

9. Isn't it enough that the owner has donated to society all or part of the cost of his building by way of payments for labor, materials, etc., without being forced ever afterward to pay a tax on his "dead horse"—that is on his building which earns nothing?

10. While ignoring the earning ability of the buildings, the difference in the producing, or earning capacity of different parcels of LAND is generally recognized in the assessor's tax program. The building, when once placed on the land, becomes part of the land (real estate), both legally and economically.

11. Strange as it may seem, assessors recognize the lack of earning power of an exhausted coal mine and in a dry oil well; but seem utterly incapable of distinguishing between real properties which produce and properties which yield nothing.



# The Chartered Surveyors Institution of Great Britain

By E. J. MAIER, M. A. I.

**B** RITISHERS are proud of their traditions and fond of formality, which any observer will agree, adds tone and dignity to a proceeding. This applies particularly to the conduct of the Chartered Surveyors Institution, of which this is an impression gleaned while a guest of that organization.

It was my privilege, upon written invitation of the President and council, to attend the Ordinary General Meeting of the year, held in the elaborate quarters of that society on Great George Street in Westminster, an impressive building in the old section of the city, within the shadow of Buckingham Palace and the Houses of Parliament.

The meeting was conducted in a most formal manner and included the unveiling, and acceptance for hanging on the walls of the great meeting hall, of a portrait of a past officer who had served the organization for a generation; the induction of new members and probationers; and also the reading of a paper on the subject of "Planning in Relation to Future Population" by Mr. A. M. Carr-Saunders, professor of Social Science, Liverpool University. Printed copies of Mr. Saunders' paper marked "private and confidential, not to be published" having been distributed in advance, the members were fully prepared to argue the subject. There ensued a debate which was engaged in by such prominent personages as Dean Inge, of St. Paul's, Mr. Frank Hunt, Surveyor to the London County Council, and other titled members, resulting in a very thorough inquiry into the subject, including

opinions that London, Liverpool, and Glasgow had grown beyond the optimum for healthy social life, and the questioned need for birth control.

The Chartered Appraiser in England is comparable with the Member of the American Institute of Real Estate Appraisers in America. It may be well for this younger member of the fraternity in this country to pattern his conduct so that he may attain the high standing and recognition which the Member of the British Society enjoys.

To go back for a moment to the inception of the Institution, we find it was founded in 1868; and in 1881 was granted a Royal Charter by Queen Victoria. At that time the profession of surveyor was defined as:

The art of determining the value of all descriptions of landed, mineral, and house property and of the various interests therein, the practice of managing and developing estates; and the science of admeasuring and delineating the physical features of the earth; and of measuring and estimating artificers work.

The Duke of York, when attending the Diamond Jubilee celebrations of the Institution, characterized the surveyor in somewhat more modern terms, as "the general utility man of the professions." His Royal Highness said:

He (the surveyor) touches the ordinary life of the public at innumerable points, more perhaps even than the lawyer and the doctor. Upon those who are concerned with the management of the great country estates, we rely to a large extent for the production of our food and timber. Our housing, our trade and commerce, depend in many respects upon the advice of the surveyor trained in the difficult art of valuation; in town planning and the development of land for building, in mat-

ters of sanitation, taxation, rating and the management of mineral property, the surveyor is brought into contact with our daily lives. He is, in fact, with us almost from our cradles to our graves. Nor must I fail to mention the building surveyor and the quantity surveyor, the former the physician of bricks and mortar, the latter, as it were, the chemist who analyses in minutest detail the component parts of the structure that is to arise.

In order that we may not confuse the term "surveyor" it may be said that for some time after the adoption of the designation in England the term was misconstrued and a surveyor was there regarded, as in this country, as the user of pole, chain, and theodolite for the planning and mapping of land. In many respects the functions of the surveyor cover a greater scope than that yet undertaken by the American appraiser. For example, the surveyor is expected to measure the work of the architect from drawings and descriptions in his specifications and to embody them in a bill of quantities, the work which, in this country, is usually done by the office staff of the architect or the building contractor.

#### A PROFESSION OF HIGH STANDING

The organization setup of our big brother abroad, may well be looked upon at the angle from which the chap leaving school would approach it. Having discussed the subject with his elders, he soon learns that here is a profession, in every branch of which there is a happy combination of theory and practice of indoor and outdoor work which constitutes a harmonious life. One day finds him in the field, observing the lie of the land, measuring and judging, considering and contriving; the next, in the drawing office testing and correcting impressions formed on the spot by prolonged and intricate calculations. Then out to the field again, to put into practice well-wrought plans of action. Here is a scheme of existence

which combines variety of experience with a sense of design and of responsibility.

The apprentice knows these things when he applies for a position in the surveyor's office, but he also knows that the emoluments are far less than may be had in other lines of endeavor. This, however, is not of outstanding importance to the chap likely to have some means of his own, particularly as he knows that the positions each year are more difficult to obtain, and that he will ultimately be a member of a profession of high rating. The Institute however has made adequate provision for the boy without means by giving him an opportunity to earn his way.

In England, Chartered valuers are recognized for their ability and integrity; and students know that until they have acquired their "letters" they cannot be employed in Government service under the Rating and Valuation Acts, in the service of County Councils, by large rating authorities, or the great railway or other public or quasi-public corporations. The advice and counsel of the Chartered Appraiser is sought in all transactions of importance.

#### TRAINING

The training which is required includes a sound general education upon which to base the more technical training. This training may be followed up at a university, in courses relating to the surveyor's profession, or in the office of a surveyor practicing in the particular branch the candidate wishes to follow. In this respect the Chartered Surveyors Institution offers scholarships to the various apprentices who have the desire and initiative but lack the finances.

These scholarships, when granted, require the holder to carry out certain work under the guidance of his supervisor. In

some cases, students are required to sign articles for a period of three years, and to pay a premium of from 100 to 300 guineas (\$525 to \$1,575) for the term. Where the student has already taken a university course, two-year articles may suffice, and a reduced premium is paid. But above all, the young man must apply himself and show progress. While undergoing the articles, the student is required to prepare and sit for the Institution examinations with the object of acquiring membership in that body as soon as his pupilage is completed. After the student has passed his examinations and been given the right to use the designation "Chartered Surveyor" he may use the letters P.A.S.I.—and ultimately become a "Fellow", using the designation F.S.I.

The student who has passed through this period is then fully equipped to enter the field of his profession and make for himself a reputation for ability, sound judgment, and probity.

#### MEMBERSHIP CLASSIFICATION

There are four classes of membership: Fellows, Professional Associates, Associates, and Honorary Members. There are also classes of Probationers and Students.

A *Fellow* is required to be more than thirty years of age, to have a practical knowledge of surveying, and to have passed the Direct Fellowship Examination, or such other examination as may be approved by the Council.

A *Professional Associate* must be more than twenty-one years of age, have acquired a practical knowledge of surveying, and pass an examination. He may hold office.

An *Associate* must be more than twenty-one years of age, not a surveyor by profession, but his pursuits shall be such as to qualify him to concur with surveyors in the advancement of professional knowl-

edge. He is not required to submit to examination. He is not eligible for the offices of President or Vice-President.

A *Probationer* is one whose period of Studentship has elapsed, who has passed intermediate examinations, and who is required to pass the final examinations within a period of three years and to qualify within five years.

A *Student* cannot be under eighteen years of age. This group includes only those who are or have been pupils of Surveyors or who are studying with a view to entering the profession and may continue as Students until the end of the calendar year in which they attain the age of twenty-one, by which time they must have qualified as a probationer or be rejected.

#### EXAMINATIONS

Rules for examinations are very strict. Preliminary examinations up to the age of twenty-five include such subjects as arithmetic, algebra, English history, composition, and geometry and any one of the following: Latin, French, Irish, German, Geology, Botany or Chemistry. As soon as these examinations have been passed, the applicant may enroll as a Student of the Institution. There are also special tests which are held at various times of the year in cities throughout the United Kingdom for those residing outside the City of London. The intermediate examinations which entitle candidates to membership include the general examination covering such subjects as surveying and levelling outdoors; elements of bookkeeping; outline of central and local government; draughtsmanship; elements of economics; and mensuration and trigonometry. In addition to these, depending upon the subdivision selected, certain other examinations are required. For the candidate who selects Land Agency the following subjects are required:—typical agri-

cultural science; estate accounts; elements of forestry; geology and soils; law relating to land; surveying; and levelling (indoor and preliminary work).

For the surveyor who would take up valuation there is required:—application and use of valuation tables; construction of buildings; drainage; estate accounts; law relating to land; surveying; and levelling.

In order to attain the rating of "Fellow" the Final or Direct Fellowship examination includes such subjects as:—Principles and Practice of Valuation; Law of Arbitration; Acts for Compulsory Purchase of Property (condemnation); Measurements and valuation of dilapidations; easements and riparian rights; law of fixtures and dilapidations; law of landlord and tenant; local and imperial taxation and tithe rental charge; law of mortgages; making of reports; road making; sanitation as applied to houses; town planning and development of building estates; the law of vendors and purchasers.

Reflecting upon our conditions at home, the period which we refer to as the "Depression", and may ultimately be looked back upon as the period in which we learned our most valuable lessons in economics and government, has completely changed business practices so far as real estate valuation is concerned and has demonstrated the absolute need for the professional appraiser who has qualified under the stringent examination as to ability and integrity required by the A.I.R.E.A. Problems such as H.O.L.C., and F.H.A., on a far greater scale than heretofore undertaken have engaged the attention of its members. These developments are rap-

idly improving the amenities and stability of our homes and our business institutions and will improve the social life of our country.

The functions of the Real Estate Appraiser, and particularly those designated M. A. I., have added much to the expansion of this new order of things and have placed him in one of the most active nerve centers of the body social and the body political. The appraiser's duties to his government are far more important than his obligations in transactions between private citizens. When the state requires evaluation in condemnation under the right of eminent domain or for taxation, the strictest sense of fair play and rectitude is demanded in addition to competency. In these matters which relate to governmental interests and those involving judicial action we should look to legislation which will increasingly entrust these works to the qualified appraiser who has submitted himself to recognized authority and received the stamp of approval of those who stand together to sustain the character and repute of their profession.

As a final word to my associates, let me commend the English system, not only because of the study and research they have put into the subject, not only for the encouragement, guidance, and educational opportunities which they have opened to young men desiring to enter the profession, and which is so essential in the perpetuation of the Institution, but also for the ever-increasing measure of confidence which they instill in the public by their high standard of ethics, adding honor and respect for their members, which they guard with jealous pride.





# Court Decisions

## APPRAISALS UNDER THE FEDERAL SECURITIES ACT

By ANDREW C. HAMILTON  
Member of the Illinois Bar

THE opinion of the Securities and Exchange Commission in the very recent case of *Securities and Exchange Commission vs. Haddam Distillers Corporation* (Announced October 30, 1934) contains probably the first clear indication of the attitude of that important governmental body toward the methods and standards of the professional appraiser.

The Haddam Distillers Corporation filed registration statements with the Commission seeking authorization to offer its stock for sale to the public. The Commission issued stop orders. It was alleged that the registration statement contained untrue representations of material facts and omitted to state material facts required to be stated therein. Most of the alleged deficiencies were in connection with the valuation of the assets of the corporation acquired from its promoters.

Certain land, buildings, water rights, and distillery equipment and processes were transferred to the corporation for \$250,000 in stock. The values of these physical assets were based upon the values set forth in an appraisal accompanying the registration statement and prepared by a firm of appraisers. (Quotations in this article are from the opinion in Release No. 244 Securities Act of 1933—Securities and Exchange Commission.)

"The contention, briefly put, is that the balance sheet is false because the appraisal upon which it is based is false. The land, buildings, machinery and equipment are carried at 'book value', but these book values, as registrant concedes, are based upon the appraisal, which in turn

gives values upon the basis of 'replacement cost new' and 'sound value' (replacement cost new minus depreciation). A question may well be raised whether a balance sheet is acceptable under the standards of the Securities Act when the property account is the result of the application of these norms, where their use has resulted in setting up in the balance sheets values that increase by more than threefold the cost of this property to the promoters who were on both sides of the transaction whereby this property was transferred to the corporation. Reproduction cost has, it is true, been required to be considered as one element in evaluating property of public utilities for rate-making purposes. But this is a far cry from using such a standard alone to set up property values in the balance sheet of an ordinary commercial enterprise against which securities are issued to a controlling group of promoters. But this issue is not now raised. Accepting the norms allegedly employed by the registrant and the appraisal company, the contention is nevertheless that the appraisal and hence the balance sheet are false."

"Valuations are, of course, in the final analysis expressions of judgment informed by knowledge and experience. But an appraisal purports to be more than an arbitrary determination of value. It seeks to attach value to objects as a consequence of method. If the norm chosen be 'replacement cost new', weight wherever possible must be given to current or averaged market prices in the case of standard ma-

terials, and in other situations attention must be directed toward a detailed analysis of construction and estimates of construction based upon experience. Fundamental to any such judgment is a correct appreciation of the nature of the property itself, for falsity in this description leads inevitably to erroneous conclusions. Thus valuations contained in an appraisal purporting to follow certain norms, even though in the final analysis they represent merely informed judgments, nevertheless are representations that these norms have been accurately and fairly followed. If the norms purported to be followed are not fairly observed, the valuations finally arrived at are in essence misrepresentations of fact because they untruthfully describe the basis upon which judgment has been exercised. This is the contention made in this proceeding, namely that there has been a flagrant and unconscionable departure from the standard purported to have been followed by the \* \* \* Appraisal Company in its report. The contention is amply supported by the evidence. Not only have methods been unfairly and inaccurately applied but the nature and character of the property has been misdescribed."

Here are declarations of great significance to the professional appraiser. "*\* \* \* an appraisal purports to be more than an arbitrary determination of value. It seeks to attach value to objects as a consequence of method. \* \* \* Fundamental to any judgment is a correction appreciation of the nature of the property itself \* \* \*. If the norms purported to be followed are not fairly observed (which, notice, may be either because of lack of professional knowledge and skill or because of carelessness), the valuations finally arrived at are in essence misrepresentations of fact, because they untruthfully describe the basis upon which judgment has been exercised.*"

The Commission alleged that the inclusion of the attic floor area in the total floor space description of the distillery was a misrepresentation since without alterations that floor space was not usable, being merely an attic without light or air.

The valuation of the water rights was attacked. "The testimony of the Commission's engineer revealed that the registrant must pay not more than \$224 a year for the use of the water; that to comply with the health regulations the registrant must construct a disposal plant for the effluent from the proposed plant; that the dam on the stream had been washed away and that a new dam must be constructed for the necessary water storage; that the water supply was not available as a gravity supply for more than two feet above the first floor, and that the still was on the ground floor; and that there were no pumping facilities to make this water supply available above the said two feet. The appraiser \* \* \* paid no attention to any of these factors, even the cost of pumping. His method of computing the flow of the stream was to time the flow of a potato for a hundred feet. The Commission's engineer testified the flow was rapid and could not be measured by rule of thumb methods."

The appraiser arbitrarily allocated a certain horsepower to the stream and equally arbitrarily valued this horsepower at \$400 per h. p. without any evidence of having calculated the head that could be developed, mean and constant stream flow, or cost of commercial power.

"The testimony clearly shows that the machinery and equipment which were not located on the property were never seen by the appraiser, \* \* \*."

"The appraisal valued a 'distilling unit' at a 'replacement cost new' of \$125,000, and a 'sound value' of \$125,000. \* \* \* A director of registrant, testified he pur-

chased the unit in Germany in 1929 for approximately \$22,000, paid import duties of \$8,000, and the total cost was \$40,000.

He admitted it could not have appreciated over 200 per cent in five years, and that he protested the valuation to the appraiser \* \* \*. Obviously, neither replacement cost new nor depreciation were considered in the valuation, and it was admitted \* \* \* that the present cost was ascertainable. The appraisal reports contain no data justifying the valuation."

"The gin-stilling apparatus was listed in the appraisal reports at \$6,000 for both 'replacement cost new' and 'sound value'." A director testified that he bought the still for \$1,500 and that he protested the valuation of the appraiser, inasmuch as he had told the appraiser what it cost. "Once more the cost new could have been ascertained and was not, and the item of depreciation was ignored."

"The Commission's engineer testified that he only saw one new piece of apparatus at the plant. \* \* \* All the items complained of were *standard* equipment, and the present price could have been obtained. The factor of depreciation was regularly

ignored. The serial numbers were on many of the machines, so the date of purchase could have been ascertained. In addition, as stated above, some of the machinery was never seen by the appraiser."

The appraiser admitted having made a "quick appraisal". In its published opinion the Commission characterized the facts as "evidence of unconscionable pretense of scientific method by an appraisal company" and confirmed the issuance of the orders stopping sale of the stock of the Haddam Distillers Corporation.

Thus it is apparent that in the eyes of the Securities and Exchange Commission not only is an appraiser under a duty to exercise reasonable care in the making of an appraisal but also the exercise of that reasonable care requires the possession and use of a high degree of professional knowledge and skill.

The question of civil liability of the appraisal company for loss occasioned to those who relied upon its appraisal was not considered in this case, but that does not make the liability for money damages in a situation where there has been losses to investors any less real.



# Obsolescence of Buildings

## A SELECTED LIST OF REFERENCES

Compiled by

Mary Ethel Jameson, Librarian  
National Industrial Conference Board

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## Digest of the Minutes

The American Institute of Real Estate Appraisers of the National Association of Real Estate Boards convened in the Ballroom of the Raleigh Hotel, Washington, D. C., at 9:50 A. M., on September 28, 1934. President Philip W. Kniskern presided.

The following addresses were given, each followed by informal discussion:

"Real Estate Appraisals Under the Securities Act," by John L. Haynes.

"Valuation Problems in Land Acquisition for the Government," by H. Tudor Morsell.

"Appraisal Problems of the Federal Housing Administration," by Frederick M. Babcock.

"Appraising Farms for the Farm Credit Administration," by E. P. Sanders.

The meeting adjourned at 11:45 A. M.

### NOON DUTCH TREAT LUNCHEON

During the noon hour on September 28, 1934, members of the Institute of Real Estate Appraisers and their guests assembled in two groups, one under the leadership of Vice-President Joseph B. Hall, and the other under the leadership of Mark Levy, for Dutch Treat Luncheons and informal round table discussions of current appraisal problems.

No business was transacted.

The meetings adjourned at 2:00 P. M.

### AFTERNOON SESSION, SEPTEMBER 28, 1934

The Institute of Real Estate Appraisers convened in the Ballroom of the Raleigh Hotel at 2:00 P. M., with President Philip W. Kniskern presiding.

The following addresses were given, each followed by informal discussion:

"Research and Appraisal Work," by Dr. Ernest M. Fisher.

"H. O. L. C. Appraisal Activities," by Philip W. Kniskern.

"Theory of Depreciation," by George H. Gray.

"Commercial Property Having Consequential Damages," by Cuthbert E. Reeves.

The meeting adjourned at 5:15 P. M.

### EVENING SESSION, SEPTEMBER 28, 1934

The Institute of Real Estate Appraisers convened at a Dinner Meeting at 7:30 P. M., in the Ballroom of the Raleigh Hotel with Mr. Roger Whiteford as Toastmaster.

The following addresses were given:

"English and Foreign Appraisal Societies," by Maurice F. Reidy.

"The Aims and Progress of the National Housing Act," by Stewart McDonald.

"Appraisal Problems of the Home Loan Bank Board," by John H. Fahey.

Entertainment.

The meeting adjourned at 11:00 P. M.

### MORNING SESSION, SEPTEMBER 29, 1934

The Institute of Real Estate Appraisers convened at 9:50 A. M. in the Ballroom of the Raleigh Hotel. President Philip W. Kniskern presided.

A motion was made, seconded, and unanimously carried, directing that the American Institute of Real Estate Appraisers send a note to Mr. E. L. Ostendorf and family of Cleveland, Ohio, expressing sympathy for the loss of Mrs. Ostendorf's mother.

President Philip W. Kniskern spoke at some length explaining the purposes of the Institute of Real Estate Appraisers, developments in the field of government appraising and in the appraising activities of insurance and other financial institutions which led to the desirability of amending the By-Laws of the Institute to provide for a new membership classification. In the absence of the chairman of the By-Laws Committee, he then presented the proposed amendments as published.

Mr. Max J. Rudolph of Cleveland, Ohio, moved to instruct the Governing Council to amend the By-Laws by omitting the words "or oral" in connection with examinations, Article II, Section 2, Sub-Section e. Mr. Percy A. Gaddis of Jersey City, N. J., seconded the motion. The motion was defeated.

It was then moved by Mr. Max Rudolph of Cleveland, Ohio, seconded by Mr. Percy Gaddis of Jersey City, N. J., to instruct the Governing Council to amend the By-Laws as proposed in the published mimeographed circular.

Mr. John J. Berry of Newark, N. J., read the following resolution:

"RESOLVED, that the members of the American Institute of Real Estate Appraisers assembled at a regularly-called meeting in the Raleigh Hotel, Washington, D. C., approve the objectives sought in the proposed amendments to the By-Laws to establish an associate membership classification, but recommend that the new class be designated by a name more truly descriptive of the specialization it is intended to recognize, such as Industrial M. A. I., Farm M. A. I., Residential M. A. I., and so forth"; and moved that Mr. Rudolph's motion be amended in such a way as to instruct the Governing Council to use the descriptive designation as set forth in the above resolution instead of the designation "Associate Member" proposed in the pending amendments.



The motion was seconded by Mr. A. N. Gitterman, New York City.

It was moved by Joseph A. Herbert, Jr., Washington, D. C., and seconded by A. N. Gitterman that the motions before the house be tabled. The motion was defeated.

It was then moved by A. N. Gitterman and seconded by Mr. Percy A. Gaddis that the motion made by Mr. Berry be amended so as to provide that the word "Limited" be used in the pending amendments instead of the word "Associate."

After discussion, President Kniskern put the motion made by Mr. Gitterman. It was carried by a large majority. President Kniskern then put Mr. Rudolph's amended motion and it was carried.

Mr. A. N. Gitterman then moved, and Mr. J. K. Powell, of Metuchen, New Jersey, seconded the motion, that a committee be appointed to draft appropriate resolutions expressing appreciation to President Philip W. Kniskern, to the speakers, to the membership in attendance at the meeting, and to others who contributed to the success of the meeting. The motion carried.

The meeting adjourned at 12:35 P. M.

#### AFTERNOON SESSION, SEPTEMBER 29, 1934

The Institute of Real Estate Appraisers convened at 2:00 P. M. in the Ballroom of the Raleigh Hotel with Mr. Leonard Downie, Washington, D. C., presiding.

Mr. Arthur C. Houghton, on behalf of a special appraisal committee composed of Mr. Morton J. Luchs, Mr. Curtis Walker, Mr. R. Marbury Stamp, Mr. F. Elliott Middleton, and Mr. Joseph A. Herbert, Jr., all of Washington, D. C., presented a demonstration appraisal of a Washington, D. C., property. The demonstration was followed by informal round table discussion.

The meeting adjourned at 4:30 P. M.

#### MEETING OF THE GOVERNING COUNCIL

The Governing Council convened at 1:30 P. M., September 29, 1934, the following members being present:

Philip W. Kniskern, Washington, D. C., President.

Cuthbert E. Reeves, Buffalo, N. Y.  
Joseph B. Hall, Cincinnati, Ohio.  
J. W. Cree, Jr., Pittsburgh, Pa.  
Frank H. Taylor, East Orange, N. J.  
Ralph D. Baker, Camden, N. J.  
Harry E. Gilbert, Baltimore, Md.  
Samuel C. Kane, Philadelphia, Pa.  
J. Alvin Register, Jacksonville, Fla.  
A. C. Houghton, Washington, D. C.  
Maurice F. Reidy, Worcester, Mass.  
Mark Levy, Chicago, Ill.

The following members-elect of the Governing Council were present:

William H. Ballard, Boston, Mass.

Hill Ferguson, Birmingham, Ala.

Arthur S. Kirk, Des Moines, Iowa.

Upon motion duly made and seconded the reading of the Minutes of the Meetings held at the Nicollet Hotel in Minneapolis, Minn., on June 26th and 27th, 1934, was waived.

#### MEMBERSHIP REPORT

The following Membership Report was submitted and approved:

1. Number of Members as of Sept. 17, 1934...291
2. Number of Affiliates as of Sept. 17, 1934...207

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#### FINANCIAL REPORT

The following Financial Report was made by Mark Levy, Treasurer, and upon motion duly made and seconded was unanimously approved:

Receipts to Sept. 13, 1934	Actual	Budgeted
1. Bank Balance of		
1-1-34 .....	\$ 860.05	\$
2. 1934 membership dues..	4,440.54	6,666.67
3. 1933 dues paid in 1934...	21.25	
4. Funds on deposit.....	1,575.00	
5. Examination fees .....	475.00	333.33
6. Journal account .....	3,846.10	1,666.67
7. Receipts from sale of standard forms .....	27.90	
8. Receipts from sale of emblems .....	13.18	
9. Meetings account .....	966.00	
Totals .....	\$12,225.02	\$8,666.67

Expenses to Sept. 13, 1934	Actual	Budgeted
1. Refund of dues .....	\$ 25.00	\$
2. Administration (including bank tax, exchange on checks, general miscel. expense) .....	526.60	
3. Examination fees .....	218.05	266.67
4. Journal account .....	2,629.92	2,000.00
5. Postage .....	49.04	
6. Printing and stationery..	283.47	5,273.36
7. Salaries and rent .....	1,807.83	1,700.00
8. Funds on deposit .....	520.00	
9. Meetings account .....	910.14	
Totals .....	\$6,970.05	\$9,240.03

Actual Bank Balance 9/13/34....\$5,254.97  
Funds on deposit..... 1,055.00

Available Cash 9/13/34.....\$4,199.97  
Outstanding bills to be paid:  
Journal Cards .....\$7.47  
Institute's pro-rata share of Divisional rent for September.  
Institute's pro-rata share of Salaries for September.

## REPORT OF THE ADMISSIONS COMMITTEE

Samuel C. Kane, Chairman of the Admissions Committee, reported that the Committee met in the Raleigh Hotel, Washington, D. C. on Sept. 27, and 28, 1934 and considered 97 applications for admission to the Member Grade and 4 applications for admission as Affiliates on which action was taken as follows:

1. *Recommended for election to Member Grade:*

John B. Green, St. Petersburg, Fla.  
Henry G. Slavik, Chicago, Ill.  
Julius Braun, Joliet, Ill.  
John Garfield Emery, Grand Rapids, Mich.  
Herbert O. Byrd, St. Louis, Mo.  
Elmore Cave, St. Louis, Mo.  
Edward M. West, White Plains, N. Y.  
Robert F. Berwald, Cleveland, Ohio.  
William D. Burkheimer, Seattle, Wash.  
William A. Eastman, Seattle, Wash.

2. *Recommended for reinstatement to Member Grade:*

Charles A. Van Winkle, Rutherford, N. J.  
Theodore Van Winkle, Rutherford, N. J.  
G. Jackson, Jr., Orlando, Fla. (subject to submission of formal application for reinstatement and the approval of the Florida Chapter)

3. *Recommended for election to Member Grade subject to stated conditions:*

Ten Candidates (whose names were given) were recommended for election to the Member Grade subject to fulfillment of certain stated conditions:

4. *Recommended for election to new membership classification, if established:*

Four Candidates (whose names were given) were recommended for election to Limited Membership, subject to written examination.

5. *Recommended for election as Affiliates:*

Irwin H. Beadle, Honolulu, T. H. Hawaii.  
Edmund D. Cook, Jr., Trenton, N. J.  
Homer F. Hanson, Altoona, Pa.  
M. H. James, Houston, Texas.

6. *Action deferred:*

Mr. Kane read the names and addresses of 58 candidates on whose applications the Admissions Committee recommended deferred action for reasons stated in connection with the name of each individual.

7. *Rejected or withdrawn.*

Mr. Kane read the names and addresses of 10 candidates whose applications have been rejected by the Admissions Committee, and 2 candidates whose applications had been withdrawn by permission.

8. *Recommended policy changes:*

The Admissions Committee recommended that the policy of requesting letters from the clients of candidates be discontinued as a general practice.

The Admissions Committee recommended that the Chapter's recommendation be accepted in lieu

of the endorsement of three M. A. I.'s in the case of candidates residing within the territorial jurisdiction of a Chapter.

On motions duly made and seconded each of the eight recommendations of the Admissions Committee set forth above was unanimously approved.

## REPORT OF THE MEMBERSHIP COMMITTEE

Bracton Goldstone, Chairman of the Membership Committee, submitted a report of progress which was approved by unanimous vote.

## REPORT OF EDUCATION AND RESEARCH COMMITTEE

Joseph B. Hall, Chairman of the Committee on Education and Research, made an informal report of progress which was approved by unanimous vote.

## REPORT OF DISCIPLINARY COMMITTEE

Maurice F. Reidy, Chairman of the Disciplinary Committee made an informal report which was approved by unanimous vote. He then moved that the Council adopt the following regulation as an addition to the Institute's Rules of Professional Ethics: "No member shall conduct himself in such manner as to prejudice his professional status or the reputation of the Institute." The motion was seconded and passed by unanimous vote.

It was then moved by Mr. Cree, duly seconded and carried, that the Council add the following regulation to the Institute's Rules of Professional Ethics: "Any oral or written statement by a member with reference to his affiliation with the Institute that is not specific and exact shall be construed to be professional misconduct under Article VI, Sec. 2 of the By-Laws, and subject to immediate disciplinary action."

## REPORT OF COMMITTEE ON JOINT APPRAISAL PRACTICE

Arthur C. Houghton made an informal report on the work in progress, under the U. S. Chamber of Commerce's Joint Committee on Appraisal Practice. The report was approved by unanimous vote with instructions to Mr. Houghton to continue his contact with the Joint Committee of the U. S. Chamber of Commerce.

## LEGISLATION AND LEGAL COMMITTEE

There was no report from the Legislation and Legal Committee.

## INCORPORATION

After discussion as to the advisability of incorporating the Institute in New York, California, and certain other states it was decided by unanimous vote that no further action be taken in this direction.

## REPORT OF COMMITTEE ON LOCAL CHAPTERS

Cuthbert E. Reeves, Chairman of the Committee on Local Chapters, reported that a certain Chapter was using a secret ballot system in connection with recommendations on the applications of candidates for admission to the Institute from that territory. He reported, also, that certain Chapters had been rather slow, sometimes, in responding to official communications from the Institute with reference to recommendations and examinations. The Council instructed Mr. Reeves to send a letter to the officials of the Chapters requesting prompt action on recommendations and examinations. The Council instructed Mr. Reeves to notify the Chapters that negative recommendations must be accompanied by a statement of the reasons on which such recommendations are based.

Mr. Reeves then reported on the membership and activities of the various Chapters.

## REPORT OF THE FINANCE COMMITTEE

Cuthbert E. Reeves, Chairman of the Finance Committee, reported that the members of his committee had held a meeting on Friday, Sept. 28th, and were unanimous in their recommendation that the Governing Council establish a system of budgetary control. The Council approved the recommendation and instructed the Finance Committee to work out a budget for 1935 in consultation with the Treasurer and Director of Activities, and submit the same to the Council for approval at its quarterly meeting in January.

The matter of endowments for research was discussed but no action taken.

By unanimous action the matter of investing the Institute's surplus funds in Liberty bonds was referred to the Chairman of the Finance Committee and the Treasurer with power to act when in joint agreement.

## REPORT OF THE ETHICS COMMITTEE

Mark Levy, Chairman of the Ethics Committee, reported that his committee had given consideration to the suggestion that an official seal be devised for use on appraisal certificates by members, and would make a specific recommendation at a later date.

## PLANS FOR MID-WINTER MEETING

It was the consensus of opinion of the Councilors that the Institute should have at least one full day's program in connection with the Annual Business Meeting of N. A. R. E. B. at Houston, Texas, in January 1935.

## REPORT OF BY-LAWS COMMITTEE

President Kniskern reported for the By-Laws Committee in the absence of E. L. Ostendorf, its Chairman. On motion of Mr. Levy, seconded by Mr. Taylor, the By-Laws were then amended as recommended by the Institute while in Official Session September 26, 1934.

## ADJOURNMENT

Upon motion duly made and seconded, the Governing Council adjourned at 4:00 P. M.



## Current Articles

The full names of the magazines indicated by initials on these pages are given below:

E. ....	The Economist	Weekly
N. J. R. E. M. ....	New Jersey Real Estate Magazine	Monthly
N. R. E. J. ....	National Real Estate Journal	Monthly
R. & B. G. ....	Real Estate Record and Builders Guide	Weekly
R. E. ....	Real Estate	Weekly
S. M. ....	Skyscraper Management	Monthly

Copies of the magazines in which these articles appear may be secured from the Library of the National Association of Real Estate Boards, 59 E. Van Buren St., Chicago, Ill. The price listed includes the price of the magazine and a small service charge for mailing and postage. Subscriptions may also be placed with the National Association.

**Accomplishments of the Retiring Assessor.** W. A. Dienhart. E. December 7, 1934, p. 10. \$0.30. A recital of the outstanding progress that has been made in establishing Cook County assessing methods upon a sounder and more equitable basis.

**Appraising Credit Worth for a Mortgage Loan.** S. E. Kazdin. N. R. E. J. September, 1934, p. 25. \$1.20. "Show me the man you lend money to; and I will tell you whether you have a good mortgage."

**Areas of Decreasing Population.** H. E. Young. R. E. September 1, 1934, p. 7. \$0.30. The Chief Engineer of the Chicago Plan Commission has some interesting ideas on the area surrounding Chicago's Central business district.

**Capitalization Method for Valuation of Residential Property.** Morris Goldfarb. N. J. R. E. M. October, 1934, p. 4. \$0.45. Mr. Goldfarb is Past President of New Jersey Chapter No. 1, American Institute of Real Estate Appraisers.

**The Conflicting Values Placed on Hillside.** R. & B. G. November 17, 1934, p. 20. \$0.70. More facts on the much discussed P. W. A. project in the Bronx.

**Depreciation—a Reserve for Rehabilitation.** E. H. Boeckh. N. R. E. J. October, 1934, p. 44. \$1.20. Accompanied by a table of index numbers for 16 Metropolitan areas.

**Forecasting Real Estate Prices in Next Three Years.** W. R. Kuehnle. E. October 19, 1934, Property Owner Section, p. 7. \$0.30. The second of two articles on the probable trend of real estate prices.

**How to Be Your Own Realty Tax Assessor.** E. October 19, 1934, Property Owner Section, p. 2.

\$0.30. Methods of applying established rules and customs to determine equitable valuation bases.

**Lower Depreciation Allowance in Tax Rule Hits Corporations.** E. September 7, 1934, p. 6. \$0.30. A drastic change in depreciation allowance in federal corporation tax schedules is believed to be imminent.

**October Rental Survey Shows 26.92% Average Vacancy.** G. W. Klein. S. M. November, 1934, p. 6. \$0.45. Office building vacancy survey taken three times a year by the National Association of Building Owners and Managers.

**Population Trends in Chicago.** R. O. Lang. R. E. September 29, 1934, p. 8. \$0.30. By the Associate Director of the Chicago Census Commission.

**Real Estate Assessments as Shown in Example of Actual Practice.** W. B. Brown. E. November 30, 1934, p. 6. \$0.30. The case of a home purchaser in 1930 and his difficulties with his investment since is narrated with interesting reflections on present-day assessment practices.

**Real Estate Prices in the Next Three Years.** W. R. Kuehnle. E. October, 12, 1934, p. 6. \$0.30. Mr. Kuehnle calls attention to several factors which indicate definite improvement in real estate market conditions.

**The Real Value of Real Estate.** J. D. Mahoney. R. E. September 15, 1934, p. 11. \$0.30. The views of a noted educator on the value of a home.

**Two Dreams and a Plain Appraisal.** R. C. Erskine. N. R. E. J. September, 1934, p. 27. \$1.20. Mr. Erskine is a Past President of the Seattle Real Estate Board and was Chairman of Its Appraisal Committee for many years.



## Book Reviews

Mooney, J. D. *THE NEW CAPITALISM*. New York: MacMillan, 1934, 229 pp. \$3.50.

Perhaps you who read this review are even now thinking: "Hm—'The New Capitalism'—Oh, just another book on economics, I suppose." If so, you are mistaken; for while it is a book dealing with economics (incidentally, Mooney points out that "economics" originally meant "the science of housekeeping"; and we may find interest quickened in the subject called "economics" if we realize that, in a sense, it is the science of national or international "housekeeping"), it is *not* "just another book." It is a very unusual book in that it presents numerous primary and fundamental principles of economics in a unique, original, and absorbingly interesting way—a graphic way which introduces into the discussion of economics and economic problems the discipline of a scientific method, a method which utilizes certain phenomena observable in the field of hydraulics—phenomena which can be "picturized" in simple graphical form readily understandable by the "average" man—and through analogy shows how the same causes produce the same effects in the field of economics.

Some of the 43 figures illustrate such matters as: Why paper money prices vary from gold prices; inflation under way; return to the gold standard after devaluation of the dollar; credits are debts; balanced prices—planned production; balanced prices—wholesome competition; effect of extreme high tariff policy; how the "Thirty Hour Week" plan decreases purchasing capacity; how the income of the \$800, \$1,200, \$1,800 and \$5,000 per year man is divided; etc.

The book is also unique in that the subject matter of several of its chapters is entirely, or almost entirely, presented by means of photographs. There are three sections: I—The American Economic Scene; II—Economic Law; III—The New American Capitalism; twenty-one chapters; forty-three charts in color illustrating (with scientific exactness) hydraulic laws, and economic laws by analogy; and a very complete topical index.

The style of the author is very interesting; and his method of presenting his subject is worthy of great commendation. Many of his statements are quite striking, either because they are frankly contrary to the views commonly believed by people in general, or in open opposition to some of the governmental policies and practices now being followed, or just because of a particularly forceful combination and selection of words. For example, in his chapter on "Economic Fallacies," he says:

"It is fallaciously believed: that women know nothing about economics . . . (Women represent the consumer interest, often absurdly forgotten in men's highly intellectual discussions of economics) . . . ; That a 'favorable' balance of trade is favorable to living standards; That imported goods create unemployment; That labor has benefited or can benefit from labor organization policies that set hourly or daily rates so high, and standards of daily output so low, that the costs of these products are entirely out of reach of the working

classes: That America or any other country really CAN go off the gold standard."

In one place Mooney says: "Perhaps an introduction of the discipline of the scientific method into the field of economics will help to preclude a continuation of the appallingly costly blunders we have committed during the past several years."

Note these striking statements:

"A debt is nothing more than a credit going in the other direction."

"A credit in a speakeasy, during the evening at a gay party, seems like a CREDIT at the time. The morning after it always looks like a DEBT."

"It is the goods that go out (i. e., exports), and not the goods that come in, that reduce our standards of living."

This is a book which provokes the reader to thought. The old system and doctrine, "Laissez faire," is condemned as having violated human justice, although its virtue in having put a premium on free human initiative is recognized. The "Ideal Economic America" is described as it would be under the "New Capitalism." In this ideal economic state the rights, welfare, satisfactions, and standard of living of the *average* American family become the matters of foremost concern and importance; economic fallacies are supplanted by a correct understanding; Government is confined to the functions of guarding humanitarian principles, conserving natural resources, protecting against outside enemies, and maintaining an orderly society and fair play among economic groups.

What then is this "New American Capitalism"? Simply this: an economic system based upon toil—the principle that hard work, not short hours, is the means of creating wealth and high living standards; based upon real economic laws—laws which properly interpreted and applied would (and now will) bless the human race; and based upon traditional American ideals—ideals which accord with the spirit of the Constitution of the United States, providing free and equal opportunity to all, and guaranteeing to the individual the possession of, and the right to possession of, that which he works for and earns and saves as his own.

Mooney's book deals with matters which are now of vital importance to every group comprising American citizenry. The problems confronting us require a broader understanding of their nature, their causes, and possible remedies. *The New Capitalism* clearly presents the viewpoints of those who base their thinking upon the premise that gold is the only suitable base for a monetary system adequate for the needs of modern society. It also presents a clear and unique analysis of economic phenomena which have gained almost universal acceptance as constituting economic "laws." The book was fashioned with the purpose of contributing to the achievement of the objectives voiced in this sentence from the Introduction:

"Were our people to have a clear conception of the basic elements of supply and demand, production and distribution, purchasing capacity and real

wages, and of the economic and social value of the American Constitution,—this understanding would have far more effect in raising American living standards than any technological advances that are on the present horizon of science and engineering."

The writer of this review has had occasion in his business activities during the past year to examine and review thousands of appraisals of residential properties made in that period; and he has had it forcefully brought home to him that the great majority of men in realty appraisal activities have a very, very meager and inadequate understanding of even simple economic principles, resulting in serious errors of appraisal judgment. Therefore he heartily recommends to readers of *The Journal of the American Institute of Real Estate Appraisers* a careful study of *The New Capitalism* which presents economic law by hydraulic charts in such a simple way, and forceful way, that the effect upon values, as expressed in either paper money prices or gold prices, of as many as eleven forces operating singly or simultaneously may be readily perceived, and easily remembered, thanks to the effectiveness of the charts. We certainly need better appraisers: we won't have them until the ignorance of economics now existing in the case of this group of business men gives place to enlightenment.

Says a Chinese proverb: "One picture is worth a thousand words." Mooney's 43 chart-pictures are better than several hundred thousand words as a means of advancing understanding of economics, an understanding sorely needed in the appraisal field.

Ayers J. du Bois, M. A. I.  
Los Angeles, Calif., Sept. 8, 1934.

Bemis, A. F., and Burchard, John, 2nd. A HISTORY OF THE HOME. Cambridge, Mass., Technology Press, 1934. 502 pp. \$4.00.

A HISTORY OF THE HOME is Volume I of the trilogy under the title of *The Evolving House* by Albert Farwell Bemis and John Burchard, 2nd, published by the Technology Press of Massachusetts Institute of Technology (\$4.00). Volume II (reviewed here recently) dealt with *The Economics of Shelter*. The third volume is to proffer a solution to the housing problem.

The history of our homes is written from the human interest viewpoint. It makes as fascinating reading as a novel; the reader feels an interplay of drama and cause-and-effect almost as if there were a "plot" to the story of the evolution of shelter from tree-dwelling days to the present.

The "villain" who holds the mortgage on the old homestead first appears in Babylon. Unlike the familiar melodrama villain of more recent history, however, he could not throw the destitute mortgagor out into the dark and stormy night. The money-lender himself was the occupant of the mortgaged property; he had accepted three-year occupancy as his interest on the loan.

Chimneys to carry off the smoke of heating and cooking did not appear until comparatively late in history. When they did appear, for a time they became the major influence in home design and

for several periods thereafter houses were "built around" the chimneys and fireplaces.

Those early fireplaces were intriguing. One "modernistic" householder conceived the idea of using dog-power to turn the spit on which the dinner was roasting in the fireplace. A further innovation was to drop a live coal on the dog's tail to serve as a self-starter.

Episodes such as these enliven the entire work making it a stirring picture of the march of time seen through the windows and doors of the homes which housed the men and women who made history. This treatment is novel and sounds a keynote which probably will be followed by other writers who seek to fill the existing gap in our economic knowledge due to the scant attention which has been paid to housing.

The two authors have done a commendable task in seeking to coordinate information on housing. The social, as well as the economic significance of housing are clearly correlated, and the way is paved for the succeeding volumes with no attempt to offer conclusions in the present. Only a cautious prediction is made concerning current "modernistic" trends, and then only to discuss them as indicative.

Mr. Bemis is an industrialist and financier. He is chairman of the Bemis Bag Co., and of Building Products. For nearly a score of years he has been interested in housing philosophy and economy, and has conducted extensive research in the hunt for reduced costs for housing.

Mr. Burchard is a graduate and teacher of Massachusetts Institute of Technology. For a number of years he has been director of the housing research sponsored by Mr. Bemis, and is the author of numerous papers on engineering and housing problems.

Lawrence G. Holmes.

Chicago, Nov., 1934.

Drury, F. E., and Doyle, Graham. QUANTITIES IN ARCHITECTURAL BUILDING CONSTRUCTION. Volume I. London: Cambridge University Press, 1934. 243 pp. \$2.50.

Although this book was written for British readers, it will be found interesting and valuable by many American contractors and appraisers.

*Quantities in Architectural Building Construction*, Volume I, commences a complete measurement and survey of the buildings referred to, and deals specifically and completely with "The Cottage."

"The Cottage" was originally conceived for a country district without sewers and having no supply of water under pressure. Certain additions have been made with a view to including as much subject-matter as possible for study, bearing in mind that the average student will have carried his study of Building Construction much beyond the confines of Volume I before commencing his study of *Quantities*. These additions include a modern drainage scheme, hot- and cold-water supply, low-pressure heating, gas supply, and the provision of electric current and fittings for light and power.

The object of these additions is to present a complete set of quantities for the building and to

illustrate an organized system of procedure for this purpose. The authors give in the present volume a complete illustration of the system which they recommend, applied to the measurement, squaring, abstracting, and billing of the quantities for "The Cottage."

The main processes involved in the routine work of Quantity Surveying are defined as "Taking-off," or measuring and recording dimensions from working drawings to compute the quantities of materials and labor required for the erection and completion of a building.

In taking-off dimensions of "The Cottage" the whole of the dimensions and descriptions are first taken and entered. When these are complete, the items are squared or multiplied to produce superficial or cubic units, or added (or multiplied) to obtain the totals of linear units.

Squaring dimensions is the process of adding and/or multiplying the recorded dimensions for the purposes of obtaining the lineal, superficial, or cubic measurements so that at a later stage, by the application of some unit cost to each item, the probable cost of the complete building may be estimated.

This book describes in detail the process of abstracting from taking-off or dimension sheets the various measurements of an identical character and description, and collecting them under different trades for the purpose of determining the total quantity of work of any one kind to be entered finally under one heading.

The importance of system in taking-off dimensions is of paramount importance in Quantity Surveying, and the student should begin by first determining the order of procedure which he intends to follow and adhere to it rigidly throughout the entire job.

In his business the Contractor is called upon to make provision for the cost of many incidental and routine operations and for all the items of expenditures which cannot be conveniently entered with dimensional or numbered quantities. A set of preliminary clauses is inserted in the bill to define the nature and extent of such items.

The purpose of this volume is primarily to furnish a text book for the architectural students. It is completely illustrated with examples and details, and can readily be used as a reference book by the professional.

L. Fetherston.

Chicago, Illinois, September 11, 1934.

Leven, Maurice, Moulton, H. G., and Warburton, Clark. *AMERICA'S CAPACITY TO CONSUME*. Washington, D. C., The Brookings Institution, 1934. 272 pp. \$3.00.

*America's Capacity to Consume* is the second volume in a series of four studies devoted to an analysis of the relation of the distribution of national wealth and income to economic progress. The purpose of the investigation is to determine whether the existing distribution of income in the United States among various groups tends to impede the efficient functioning of the economic system.

The book is divided into three parts.

- I The Income of the American People
- II The Disposition of Income
- III The Relation of Consumption and Production.

In Part I, the amount of national income and its increase during the years 1900 to 1929 is analyzed. The authors show the division of the national income among the various groups, such as wage earners and investors, individual and family groups, the geographic distribution of this income, separating that of the farm and non-farm population.

The national income is the net volume of goods and services produced by the nation as resulting from productive activities of the people within a given year. This part gives the growth of this income, both in aggregate and per capita terms, the industrial sources from which this income has been derived, and interprets the income in actual dollars received, and in number of dollars that should have been received had there been no change in the level of prices.

Part II shows how the national income is disposed of, the allocation of expenditures among the major types of consumers goods, a comparison of the amount spent and saved by several income groups.

A good presentation is made of the allocation of expenditures in wage earners families with annual incomes under \$3,000; skilled workers and the lower middle class with annual incomes ranging from \$3,000 to \$6,000; farm families divided into six classes of incomes; business and professional families with incomes from \$6,000 to \$25,000; and average family expenditures.

Part III explains the extent to which the magnitude and character of the demand for consumption goods would be modified by comparatively slight increases in the purchasing power of the lower income groups, and the bearing of the analysis upon certain important current issues.

Important chapters of the book are, "Geographic Distribution of Income," "The Income of Families," "Savings versus Consumptive Expenditures," "The Trend in Savings," and "Minimum Requirements for a Reasonable Standard of Living." The business man, Realtor, appraiser, public official, laborer, and student will find interest in the explanations of the following statements: "The United States during the gay twenties was not living beyond its means"; "The tendency is to accentuate during the last decade the inequality in distribution of income"; "Vast potential demands for basic commodities and conventional necessities exist in the unfilled wants of the rural and urban masses of the people"; "The United States has not reached a stage of economic development in which it is possible to produce more than the American people as a whole would like to consume"; "We can not materially shorten the working day and still produce the quantity of goods and services which the American people aspire to consume"; "In emphasizing need of increasing consumption, the necessity of simultaneously expanding production must not be forgotten."

The conclusions and results are written in a brief, concise, and thorough manner. The authors use the present day trend to appendices, statistics, and charts. While not fast reading, the subject

matter is based on vast research work, carefully analyzed, and is very well treated.

Ben B. Beyer, M. A. I.

Cleveland, Ohio, November 19, 1934.

Robbins, Lionel. *THE GREAT DEPRESSION*. N. Y.: Macmillan, 1934, 238 pp. \$3.50.

"If recovery comes in the United States it will be in spite of the NRA, the Agricultural Administration Act, the Gold Policy, and the unbalanced budget rather than because of them. In isolation they are inimical to employment and to production," according to this author, who is Professor of Economics in the University of London.

Lionel Robbins' book is an apparent attempt to reduce the forces of operating in the current slump to the level of hard common sense. He discusses the fundamental economic factors of money, tariff, supply, demand, business enterprise, distribution, and war. In many ways his thinking is contrary to opinions popularly held in this country although it is in agreement with the thinking of Col. Leonard P. Ayers as shown in his book, "The Economics of Recovery." Both these writers believe we must "return" to capitalism.

Robbins says, "Property and business must be left to stand on their own legs. It must be a maxim of state policy to do nothing to bolster up monopoly. Intervention to maintain the value of existing property—I. e., to frustrate the law of supply and demand must cease. If recovery is to be maintained and future progress assured, there must be a more or less complete reversal of contemporary tendencies of governmental regulation of enterprises.

"If it had not been for the prevalence of the view that wage rates must at all costs be maintained in order to maintain the purchasing power of the consumer, the violence of the pres-

ent depression and the magnitude of the unemployment which have accompanied it would have been considerably less."

Of particular interest to students of business conditions is the section of this book devoted to misconceptions. Herein is shown the genesis of the depression. The arguments blaming present conditions on capitalism, the fall of commodity prices, on over-production, or on currency and gold are all exploded. These things were influential in the depression. The forces they exerted increased its severity. But the cause lies deeper than any one of them, and is behind them all. The war did it. The war upset the economic balance of the world. As nations scrambled to adjust themselves to the new set of demands and conditions following the armistice, they only made matters worst by tinkering with money standards and artificial economic policies. Capitalism was sapped of its strength by restriction.

When the possibility for profit thus began to diminish, according to Robbins, business enterprise slowed off. This was first shown in the dropping of security prices. What followed is common knowledge.

This author sets forth the proposition that business will forge ahead just as soon as there is a reasonable stability assured for the future. As soon as we are confident of that, business will begin to smell a profit in certain lines, will go out after it, and investment and reconstruction will open up.

Here is a book to clear the emotionalism out of our economic thinking. It is a simple setting forth of logical propositions without bias. It is not a plea for something, nor an urge to action, but if we follow its arguments, we are due for a direct about face in this country.

Carlton Schultz, M. A. I.

Cleveland, Ohio, November, 1934.





## New Members

At the Regular Quarterly Meeting of the Governing Council, held in Washington, D. C., on September 29, 1934, the following were elected to the grade of Member in the American Institute of Real Estate Appraisers:

**WARREN S. DEAN, WASHINGTON, D. C.** Born in Appleton, Wisconsin in 1880; Senior Regional Appraiser, H. O. L. C.; professional territory covers the New England States, New York, New Jersey, Delaware, Maryland, Virginia, West Virginia, Pennsylvania, Ohio, Indiana, Michigan, Wisconsin, Illinois; 8 years experience in the valuation of real estate; Manager, Mortgage Loan Department, McKeever and Goss, Inc., 1928-1930; was independent operator and associated as loan and appraisal advisor with J. Wesley Buchanan, Inc., from 1931 to 1933 inclusive; extensive executive experience in the United States Army up to and including 1921; general business experience, 1922 to 1934; formerly Supervisor of Agents for the Guardian Life Insurance Company.

**JOHN E. MCGOVERN, WASHINGTON, D. C.** Born in Bradford, Conn., May, 1896; Regional Appraiser, H. O. L. C.; professional territory covers North and South Carolina; Manager, Mortgage Loan Dept., Slawson & Hobbs, New York City, 1920-1927; Secretary and Treasurer, Kenneth Slawson Hobbs, Inc., 1927-1931; Manager, Slawson & Hobbs, 1931-1934; 12 years experience in the valuation of real estate.

**CARROLL WRIGHT, WASHINGTON, D. C.** Born in Wichita, Kansas, October, 1903; Member, Appraisal Department, H. O. L. C., Washington, D. C.; professional territory covers the United States in general and Virginia and Maryland in particular; Lecturer and Teacher; 10 years experience in the valuation of real estate; 8 years with Weaver Bros., Inc., Realtors, Washington, D. C.

**JOHN B. GREEN, ST. PETERSBURG, FLA.** Born in Northeast Pennsylvania, October, 1896; President, John B. Green, Inc.; professional territory covers Pinellas County, Florida; Appraiser for H. O. L. C.; active Member, St. Petersburg Realty Board; conducted appraisal classes in the St. Petersburg Realty Board; 10 years active experience in the appraising of real property; been employed by mortgage companies, banks, trust companies, and the Internal Revenue Department on appraisal assignments; valuation experience includes appraising of homes, apartments, vacant, business properties, office buildings, bank buildings, etc.

**HENRY GEORGE SLAVIK, CHICAGO, ILL.** Born in Chicago, Ill.; Active Member, past Vice-President, and Chairman, Valuation Committee of

the Chicago Real Estate Board; professional territory covers Cook County, Illinois; 35 years experience in the appraising of real property.

**PERCY E. WAGNER, CHICAGO, ILL.** Born in Chicago, Illinois, March, 1894; President, Percy E. Wagner, Inc., Real Estate Consultants; President, Midway State Bank; President, Midway Exchange, Inc.; Managing Director, Cherry Hill Golf Club; Deputy Board of Tax Appeals, Cook County; Fee Appraiser, H. O. L. C.; professional territory covers Cook County, Illinois; Active Member, Chicago Real Estate Board; Lecturer and Author; Ph.B. Degree from the University of Chicago in 1916; extensive experience in construction and sales; as President of the Midway State Bank handled liquidation and the paying of its depositors 100% in 1932; his 8 years experience as an appraiser includes the valuation of vacant, apartments, stores, industrial, and residential properties.

**JULIUS BRAUN, JOLIET, ILLINOIS.** Born in Joliet, Illinois, February, 1886; Secretary and Treasurer, Shreeve Realty Co.; professional territory covers Will County, Illinois; Active Member and President, Joliet Real Estate Board; active in real estate appraising since 1922; appraisal experience includes the valuation of residences, stores, factories, vacant, apartments, etc.; served as Chairman of the Appraisal Committee of the Joliet Real Estate Board; is at present on the Appraisal Staff of the H. O. L. C.

**ALFRED W. PALMER, DETROIT, MICHIGAN.** Born in Detroit, Michigan, April, 1886; Regional Appraiser for H. O. L. C.; professional territory covers Michigan, Illinois, Indiana, and Wisconsin; 12 years experience in the valuation of real estate, including the appraising of farms, residences, business properties, and special purpose properties, has had building construction and real estate sales experience, as well as appraisal experience in Detroit and surrounding territory.

**JOHN GARFIELD EMERY, GRAND RAPIDS, MICHIGAN.** Born in Grand Rapids, Mich., in July, 1881; President, State Savings Association; President, The Emery Realty Corp.; Active Member and Past President, Grand Rapids Real Estate Board; Member, Board of Directors, Grand Rapids Real Estate Board; Member, Appraisal Committee, Grand Rapids Real Estate Board; professional territory covers Grand Rapids and Western Michigan; Fee Appraiser, H. O. L. C.; more than 15 years experience in the appraising of real estate, including the valuation of vacant, farms, garages, warehouses, industrial property, apartments,

1. Deceased.

stores, etc.; in the general brokerage business since 1910.

**HERBERT O. BYRD, ST. LOUIS, MO.** Born in Mayfield, Ky.; Associated with Chauncey P. Heath Real Estate Company; Member, St. Louis Real Estate Exchange; professional territory covers St. Louis, St. Louis County, Missouri, and Illinois; Appraiser for H. O. L. C.; Appraiser for North St. Louis Trust Co.; Appraiser, Southwest Bank; Appraiser, Chippewa Trust Co.; Appraiser, Easton-Taylor Trust Company; Appraiser, Mutual Bank & Trust Co.; Appraiser, Jefferson-Gravois Bank; Appraiser, Berger-Cohn & Co.; 15 years experience in the appraising of real estate.

**ELMORE CAVE,<sup>2</sup> ST. LOUIS, MISSOURI.** Born in Orange County, Va.; President, Elmore Cave & Company; President, Relwel Realty Company; professional territory covers St. Louis, Missouri; Active Member, St. Louis Real Estate Exchange; 23 years experience in the appraising of real estate, including the valuation of flats, dwellings, tenements, and business property; experienced in condemnation proceedings; served on a number of Commissions in street and alley openings; served on the Board of Equalization; served on the Buying Committee for the City of St. Louis for purchasing for the Plaza; handled advertising and sales for Parkview, a high class subdivision; sold about one-third of the Ames Tract.

**DALTON GRANGER DEWITT, NEW YORK CITY, N. Y.** Born in Cincinnati, Ohio, March, 1898; Assistant to the Appraisal Advisor to the Board, H. O. L. C.; professional territory covers entire United States; formerly Vice-President, DeWitt, Smith & DeWitt, in charge of property management and real estate appraisals, this firm being a member of the Newark, New Jersey Real Estate Board; 14 years experience in the appraising of real property including employment as Appraiser for the Metropolitan Life Insurance Company, Bankers Loan Investment Company, and the Chase National Bank; completed Real Estate Appraisal Course under Philip Benson of N. Y. University.

**EDWARD M. WEST, WHITE PLAINS, N. Y.** Born in Ware, Mass., December, 1874; President, Edward M. West, Inc.; Chairman of Appraisal Committee, Member of Executive Committee, and Director, White Plains Savings & Loan Association; Member and former Treasurer, Westchester County Realty Board; Director, The County Trust Company of White Plains; Director and former President of the Chamber of Commerce; for 12 years was Secretary of the White Plains City Planning Board; Member, Mayor's Zoning Committee; Member, Westchester County Association of Local Agents, Inc.; Graduate of Yale University; gave expert testimony in several hundreds of cases throughout Westchester County; more than 15

years experience in the appraising of real property.

**L. F. STEELE, CINCINNATI, OHIO.** Born in Hustonville, Kentucky, in January, 1893; Regional Appraiser, H. O. L. C.; Class "E" Member, Cincinnati Real Estate Board; professional territory covers Ohio and Pennsylvania; formerly in the Mortgage Loan Department of The Fred'k. A. Schmidt Co. of Cincinnati; 10 years experience in the appraising of real estate, including general appraising of various types and classes of property; 14 years experience in the general real estate business handling sales, building, subdividing, managing, and financing; Sponsored by W. S. Schmidt, M. A. I., and endorsed by J. W. Cree, Jr., M. A. I., and Philip W. Kniskern, M. A. I.

**ROBERT F. BERWALD, CLEVELAND, OHIO.** Born in Cleveland, Ohio; Active Member, Cleveland Real Estate Board; President, The Berwald-Stewart Company, professional territory covers Cuyahoga County; Director, Cleveland Trust Co.; Receiver, The Union Mortgage Company; President, The Investors Land Co.; President, The Climax Land Company; 34 years experience in the appraising of real property; Sponsored by Warren L. Morris, M. A. I., and endorsed by Joseph J. Haas, M. A. I., and E. L. Ostendorf, M. A. I.

**R. W. PATTON, SAN ANTONIO, TEXAS.** Born in Karnes County, Texas, December, 1893; Owner, R. W. Patton Co.; Vice-President and Director, San Antonio Real Estate Board; professional territory covers San Antonio and vicinity; 15 years experience in the appraising of real property; has served on the Appraisal Committee of the San Antonio Real Estate Board for 10 years; graduated from Howard Payne College, Brownwood, Texas, 1912, and attended Baylor University for 1 year.

**WILLIAM D. BURKHEIMER, SEATTLE, WASH.** Born in Creston, Iowa, March, 1903; Active Member, Seattle Real Estate Board; President, Wm. D. Burkheimer, Inc.; connected with the Adjustment Department, Home Owners' Loan Corporation; Assistant Secretary, Roosevelt Building Company; professional territory covers Seattle and King County; active in the real estate business since 1926; Member, Appraisal Committee, Seattle Real Estate Board since 1930; appraisal experience during the past eight years includes the valuation of vacant, residences, garages, service stations, store buildings, and apartment properties.

**WILLIAM A. EASTMAN, SEATTLE, WASH.** Born in St. Paul, Minn., May, 1881; President, William A. Eastman & Co.; President, Washington Grand Coulee Land Co.; Member, City of Seattle Planning Commission; professional territory covers City of Seattle and State of Washington; Member, Seattle Real Estate Board; Chairman, Multiple Listing Bureau, Seattle Real Estate Board in

<sup>2</sup> Deceased.

1927-1928; 25 years experience in the appraising of real estate; served as Member, Seattle Real Estate Board Appraisal Committee for many years; clients include banks, mortgage companies, life insurance companies, and private individuals.

**J. ARTHUR YOUNGER, SEATTLE, WASH.**  
Born in Albany, Oregon, in April, 1893; Senior Regional Appraiser, H. O. L. C.; President, Seattle Mortgage Loan Company; professional territory covers Washington, Oregon, California, Arizona, Utah, Nevada, Wyoming, Montana, and Idaho; Member, Seattle Mortgage Bankers Association; A. B. Degree from the University of Washington in 1915; Vice-President and Manager, Mortgage Loan Department, Seattle Title Trust Company, 1921 to 1930; more than 5 years experience in the appraising of real property including the valuation of residences, office buildings, bank buildings, and commercial properties.

*Admitted Under Limited Specifications*  
(Article II, Sec. 3, Sub-Sec. C)

**GEORGE P. WILLIAMS, WASHINGTON, D. C.**  
Born in Reidsville, North Carolina, in February, 1894; Regional Appraiser for H. O. L. C.; professional territory covers Georgia, Florida, and Alabama; on leave of absence as Manager, Mortgage Loan Dept. for Frederick A. Schmidt Co., Cincinnati, Ohio; Author; for the past 5 years has appraised almost exclusively for the Metropolitan Life Insurance Company, on business, residential, and apartment house properties for mortgage loan purposes; prior to that time, made appraisals for such companies as the Guaranty Trust Co., Richmond, Virginia Trust Co., Richmond, Old Dominion Mortgage Corporation, Richmond, Grace Security Corporation of America, Norfolk, and the Massachusetts Life Insurance Co., as well as numerous individuals.



## Roster of Members

**Birmingham ALABAMA**  
**HOLLIS BUSH**.....Jemison Companies Bldg.  
**JOHN D. CHICHESTER**.....708 Jackson Building  
**FRANK B. CLARK**.....220 N. 21st Street  
**HILL FERGUSON, The Jemison Companies**.....  
 .....221 N. 21st Street  
**HAROLD M. HENDERSON**.....2105 1st Avenue

**Glendale CALIFORNIA**  
**PETER HANSON**.....520 Security Bldg.

**Long Beach**  
**J. MORTIMER CLARK, Clark & Maspero**.....  
 .....409 Security Bldg.  
**J. C. HOFFMAN**.....307 F. & M. Bank Bldg.  
**A. G. MASPERO, Clark & Maspero**.....  
 .....409 Security Bldg.  
**T. F. MERRICK**.....Heartwell Bldg.

**Los Angeles**  
**RALPH BRASHEAR**.....4157 W. 5th St.  
**DAVID W. BUSH**.....616 O. T. Johnson Bldg.  
**GEORGE H. COFFIN, JR.**.....  
 .....408 Hollywood Security Bldg.  
**AYERS J. du BOIS**.....7079 Hollywood Blvd.  
**ARTHUR L. LAYDEN, R. C. Mason & Co.**.....  
 .....417 S. Norton Ave.  
**NATHAN H. LIBOTT**.....6253 Hollywood Blvd.  
**STANLEY L. McMICHAEL**.....6785 Whitley Terrace  
**JOHN W. SALMON**.....2912 Brighton Ave.  
**D. D. SAYER, JR.**.....4100 E. 9th St.  
**GEORGE L. SCHMUTZ**.....8703 Santa Monica Blvd.  
**CHARLES B. SHATTUCK**.....2510 S. Vermont Ave.  
**IVAN A. THORSON**.....500 Corporation Bldg.  
**FRED E. VINCENT**.....3440 Winslow Drive

**Oakland**  
**W. S. GUILFORD**.....  
 .....Athens Athletic Club, 12th and Clay Sts.  
**JAMES G. STAFFORD**.....5820 Presley Way

**Sacramento**  
**MARK CHEESMAN**.....2964 Govan Way  
**A. J. DELANO**.....809 J St.

**San Francisco**  
**GEORGE I. NOYES**.....444 California St.

**Southgate**  
**LOUIS R. ARDOUIN**.....2931 Willow Place

**Wilmington**  
**THOMAS FRANCIS MASON**.....Box 122

**Hartford CONNECTICUT**  
**JOSEPH P. KENNEDY**.....720 Main St.

**New Haven**  
**CHARLES T. LINCOLN**.....205 Church St.  
**HENRY MUSCH, JR.**.....9 Center St.  
**JOHN T. SLOAN**.....129 Church St.

**Stamford**  
**RICHARD W. FITCH**.....2 Main St.

**Waterbury**  
**GEORGE B. HORAN**.....115 Randolph Ave.

**DISTRICT OF COLUMBIA**  
**Washington**  
**WM. D. BURKHEIMER**.....2026 R. St., N. W.  
**WARREN S. DEAN**.....1619 R. St.  
**LEONARD DOWNIE**.....H. O. L. C. Bldg.  
**HAROLD E. DOYLE**.....738 15th St.  
**JOSEPH A. HERBERT, JR.**.....1013 15th St., N. W.  
**A. C. HOUGHTON**.....1516 H. St., N. W.  
**MORTON J. LUCHS, Shannon & Luchs, Inc.**.....  
 .....1505 H. St., N. W.  
**F. ELIOT MIDDLETON**.....Investment Bldg.  
**CUTHBERT E. REEVES**.....511 H. O. L. C. Bldg.  
**R. MARBURY STAMP**.....1421 H. St., N. W.  
**CURTIS WALKER**.....Tower Bldg.

**FLORIDA**  
**Fort Myers**  
**HARRY J. WOOD**.....1112 1st St.

**Jacksonville**  
**V. M. COVINGTON**.....1316 Graham Bldg.  
**LOUIS R. FENDIG**.....2nd Fl., Buckman Bldg.  
**MYRON L. HOWARD**.....516 Professional Bldg.  
**RICHARD E. KNIGHT**.....  
 .....c/o Home Owners Loan Corp.

**J. ALVIN REGISTER**.....114 Graham Bldg.  
**BAINBRIDGE RICHARDSON**.....117 W. Forsyth St.  
**WALTER D. SHELLY**.....414 Greenleaf Bldg.  
**L. K. TUCKER, JR.**.....319 W. Forsyth

**Lakeland**  
**JOHN L. WRIGHT**.....117 S. Tenn. Ave.

**Miami**  
**KENNETH S. KEYES**.....13 W. Flagler St.  
**ADRIAN McCUNE**.....1017 Security Bldg.  
**D. EARL WILSON**.....1017 Security Bldg.

**Orlando**  
**GEORGE F. BRASS**.....P. O. Box 1062  
**HAROLD V. CONDUCT**.....P. O. Box 1062  
**C. W. REX**.....Box 293  
**J. C. STEWART**.....715 State Bank Bldg.

**Sarasota**  
**FRED L. PALMER**.....482 Main St.

**St. Petersburg**  
**JOHN B. GREEN**.....11 4th St., N.

**Tampa**  
**CHARLES P. GLOVER**.....303 Citrus Exchange Bldg.

**Vero Beach**  
**FRANK R. JEWETT**.....P. O. Box Q

**West Palm Beach**  
**FRANK J. ANDERSON**.....215 S. Olive St.

**Atlanta GEORGIA**  
**BRYAN M. GRANT**.....41 Forsyth St., N. W.  
**ROBERT R. OTIS**.....15 Auburn Ave.

**Chicago ILLINOIS**  
**KENNETH CALHOUN BROWN**.....  
 .....110 S. Dearborn St.  
**HARRY S. CUTMORE**.....838 1st Natl. Bk. Bldg.  
**JOHN P. HOOKER**.....140 S. Dearborn St.  
**A. K. HORNOP**.....1411 1st Natl. Bk. Bldg.  
**WARD T. HUSTON**.....110 S. Dearborn St.  
**WALTER R. KUEHNLE**.....312 County Bldg.  
**MARK LEVY**.....7 S. Dearborn St.  
**ERNEST H. LYONS**.....120 S. La Salle St.  
**WILLIAM E. MOSBY**.....8032 Cottage Grove Ave.  
**GEO. R. QUIN**.....36 S. State St.  
**HENRY GEO. SLAVIK**.....10 S. La Salle St.  
**PERCY E. WAGNER**.....134 N. La Salle St.  
**J. SOULE WARTERFIELD**.....8 S. Dearborn St.

**Galesburg**  
**RALPH V. FIELD**.....203 Bk. of Galesburg Bldg.

**Joliet**  
**\*JULIUS BRAUN**.....Reed St.  
**WILLIAM W. MOLLAN**.....405 D'Arcy Bldg.

**Waukegan**  
**OSCAR SODERQUIST**.....22 Maple Av.

**Garv INDIANA**  
**CHARLES D. DAVIDSON**.....504 Broadway  
**J. R. DAVIDSON**.....504 Broadway

**Hammond**  
**GEORGE N. BECKER**.....7407 Jackson Ave.  
**SAMUEL C. ENNIS**.....1st Trust Bldg.

**Indianapolis**  
**GEORGE A. KUHN**.....706 Guaranty Bldg.

**Cedar Rapids IOWA**  
**JOHN J. WAGNER**.....408 American Trust Bldg.

**Des Moines**  
**ARTHUR S. KIRK**.....900 Grand Ave.

**Sioux City**  
**WILLARD L. FROST**.....Security Bank Bldg.

**Hutchinson KANSAS**  
**J. C. McNAGHTEN**.....1st National Bldg.

**Shreveport LOUISIANA**  
**T. S. NEAL**.....330 Ricou-Brewster Bldg.

**Baltimore MARYLAND**  
**OREGON MILTON DENNIS**.....

.....211 New Amsterdam Bldg.  
**W. E. FERGUSON**.....100 E. Pleasant St.  
**HARRY E. GILBERT**.....2 E. Lexington St.  
**ALBERT C. HOFRICHTER**.....2 E. Lexington St.  
**CHAS. H. STEFFEY**.....336 N. Charles St.  
 \*Deceased.



**MASSACHUSETTS**

**Boston**  
W. H. BALLARD.....45 Milk St.  
EDWARD F. CASSELL.....18 Tremont St.  
JAMES D. HENDERSON.....209 Washington St.  
NORMAN W. KENNY, C. W. Whittier & Bro.....  
.....82 Devonshire St.  
**Fall River**  
J. FREDERICK BECKETT.....49 Purchase St.  
MYER MARKELL.....Granite Block  
EVERETT N. SLADE.....57 N. Main St.  
**Lowell**  
JOHN C. PERCIVAL.....36 John St.  
**Springfield**  
HENRY M. CLARK.....100 Broadway  
**Worcester**  
MAURICE F. REIDY.....2 Foster St.

**MICHIGAN**

**Detroit**  
ALFRED W. PALMER.....1920 Union Guardian Bldg.  
**Grand Rapids**  
J. G. LLOYD ALEXANDER.....616 Murray Bldg.  
ISAAC R. BLANDFORD 3331 College Ave., N. E.  
LEON T. CLOSTERHOUSE.....  
.....American Home Security Bank  
JOHN GARFIELD EMERY.....  
.....205 Federal Square Bldg.  
HARRY J. FULLER.....The Michigan Trust Co.  
WALTER S. PALMER.....104 Federal Square Bldg.  
ARENT VAN STENSEL.....  
.....1006 G. R. Savings Bank Bldg.  
CHARLES H. WARDEN.....425 American Bank Bldg.

**Lansing**  
EDWARD G. HACKER.....228 S. Capitol Ave.  
**Pontiac**  
PAUL A. KERN, Kent & Kern..1st Nat'l Bank Bldg.

**MINNESOTA**

**Minneapolis**  
NORMAN L. NEWHALL.....519 Marquette Ave.  
EDWIN L. SOMERVILLE..1478 N. W. Bank Bldg.

**MISSISSIPPI**

**Jackson**  
J. O. MANNING.....3012 N. State St.

**MISSOURI**

**Joplin**  
ROLLA E. STEPHENS.....711 Virginia Ave.  
**Kansas City**  
E. F. PIERSON.....311 Commerce Bldg.

**St. Louis**  
W. C. BERNARD.....317 N. 11th St.  
WILLIAM W. BUTTS.....803 Chestnut St.  
HERBERT O. BYRD.....818 Chestnut St.  
\*ELMORE CAVE.....801 Chestnut St.  
CHARLES J. DALY.....823 Chestnut St.  
OTTO J. DICKMAN.....109 N. 7th St.  
CHESTER A. DOUGHERTY.....713 Chestnut St.  
JOHN H. FARISH.....811 Chestnut St.  
JOSEPH W. HANNAUER.....40 Washington Terrace  
MONROE H. RODEMYER.....706 Chestnut St.  
N. S. WOOD.....

**NEBRASKA**

**Omaha**  
C. D. GLOVER.....1221 City Nat'l Bk.  
LEWIS C. SHOLES.....305 Paterson Bldg.  
CLINTON B. STUHT.....Aquila Court Bldg.

**NEW JERSEY**

**Butler**  
FRANK B. FAY, JR.....Fayson Lake  
**Camden**  
RALPH D. BAKER.....924 Broadway  
W. W. CHALMERS.....4th and Federal Sta.  
WAYLAND P. CRAMER.....525 Cooper St.  
J. WILLIAM MARKEIM.....4th and Federal Sts.  
ABRAHAM J. ROSENFELD.....207 N. 6th St.  
PHILIP ZINMAN.....333 Arch St.

**East Orange**  
FRANK H. TAYLOR.....520 Main St.  
HARRY A. TAYLOR.....520 Main St.  
**Elizabeth**  
JOHN K. LEEDS.....10 Westfield Ave.  
B. B. MILLER.....215 Broad St.

\*Deceased.

BURTON THOMPSON.....18 W. Jersey  
MAX TIEGER.....207 Broad St.  
**Hackensack**  
ISIDORO QUINTANA.....Court House Square  
**Jersey City**  
GEORGE E. DUGAN.....345 Central Ave.  
PERCY A. GADDIS.....30 Journal Sq., Rm. 300, Jersey Journal Bldg.  
D. E. C. SOMERS.....700 Bergen Ave.

**Linden**  
JOHN FEDOR.....540 S. Wood Ave.  
**Metuchen**  
J. K. POWELL.....Main and Middlesex

**Newark**  
MURRAY APFELBAUM.....786 Broad St.  
JOHN J. BERRY.....930 Broad St.  
JOS. L. FEIBLEMAN.....17-19 William St.  
FRANKLIN HANNOCH, Fiedler Corp.....  
.....14 Park Place  
LOUIS HERMAN.....60 Park Place  
JOHN A. LINNETT.....29 Elizabeth Ave.  
E. J. MAIER.....988 Broad St.  
JOEL L. SCHLESINGER.....31 Clinton St.  
HARRY J. STEVENS.....478 Central Ave.

**New Brunswick**  
JAS. A. O'CONNELL.....392 George St.

**Perth Amboy**  
MORRIS GOLDFARB.....279 Madison Ave.

**Ridgewood**  
SAMUEL S. WALSTRUM.

**Rutherford**  
CHARLES A. Van WINKLE..1 and 2 Station Sq.  
THEODORE Van WINKLE..1 and 2 Station Sq.

**Teaneck**  
H. WENDELL FITZGERALD.....River Road

**NEW YORK**

**The Bronx, N. Y. C.**  
HERMAN A. ACKER.....318 E. Kingsbridge Rd.  
SAMUEL EDMUND McRICKARD.....400 E. Fordham Rd.

**Brooklyn**  
STEPHEN F. BARRERA.....191 Joralemon St.  
GEORGE BAUR.....2609 Clarendon Rd.  
JAMES B. FISHER.....160 Remsen St.  
GEORGE H. GRAY.....310 Ashland Place  
BERNARD F. HOGAN.....431 5th Ave.  
ARTHUR J. HORTON, Bulkley & Horton Co...  
.....1214 Flatbush Ave.  
GEORGE S. HORTON, Bulkley & Horton Co...  
.....59 Lafayette Ave.  
FRANK M. MCCURDY.....158 Remsen St.  
JAMES P. MATTHEWS.....215 Montague St.  
M. C. O'BRIEN.....793 Nostrand Ave.  
CHARLES PARTRIDGE.....397 Flatbush Ave.  
LEWIS H. POUNDS.....32 Court St.  
FENWICK B. SMALL.....1124 Myrtle Ave.  
R. W. WALDEN.....162 Remsen St.

**Buffalo**  
A. P. ALLINGHAM.....63 Niagara St.  
P. V. BOWEN.....1006 Elliott Sq.  
WALTER W. COHN.....155 Pearl St.  
CUTHBERT E. REEVES.....2202 Liberty Bank Bldg.

**Jamaica, L. I.**  
WILLIAM F. MacDERMOTT.....89-70 162nd St.  
GRANVILLE H. ROME, Bulkley & Horton Co...  
.....160-09 Jamaica Ave.

**Long Island City**  
AXEL JOHN SWENSON.....41-27 29th St.

**Mechanicville**  
FRANZ H. MOAK.....37 N. Main St.

**Mineola**  
RICHARD T. CHILDS.....222 Front St.

**Mount Vernon**  
ROBERT A. ANDERSON.....34 E. 1st St.  
EDWARD H. HUFNAGEL.....28 E. 1st St.

**New York City**  
DALTON GRANGER DeWITT.....22 W. 48th St.  
A. N. GITTERMAN.....45 E. 49th St.  
BRACTON GOLDSTONE.....22 E. 40th St.  
FRANK D. HALL.....393 7th Ave.  
JOHN R. HOYT.....17 E. 42nd St.

- ROBERT HUNTLEY.....67 Liberty St.  
S. E. KAZDIN.....2 Lafayette St.  
PHILIP W. KNISKERN.....101 Park Ave.  
JOHN E. MCGOVERN.....552 Riverside Drive  
CHARLES W. MORRISON.....67 Liberty St.  
IRVING I. ROSENBAUM.....334 Broadway
- Rochester**  
ABRAHAM BERGHASH.....130 Clinton Ave., So.
- Scarsdale**  
S. L. ANGELL.....30 E. Parkway
- Syracuse**  
EDWARD EAGAN.....204 Starratt-Syracuse Bldg.
- White Plains**  
ALBERT W. LOCKYER.....Depot Plaza  
EDWARD M. WEST.....Opposite Station
- Yonkers**  
EDWARD C. HEALD.....20 S. Broadway  
PAUL WEGENER.....2 Hudson St.
- Charlotte** **NORTH CAROLINA**  
S. T. HENDERSON.....111 Hermitage Rd.
- Salisbury**  
C. S. NOBLE.....625 Mitchell Ave.
- Akron** **OHIO**  
JOHN C. KYLE.....520 S. Firestone Blvd.  
W. F. VOGES.....1109 S. Main St.
- Alliance**  
L. D. SCRANTON.....341 E. Main St.
- Canton**  
MARK HAMBLETON.....417 Mellett Bldg.  
WILLIAM J. UEBELHART.....419 Mellett Bldg.
- Cincinnati**  
HOWARD R. BURGESS.....104 Neave Bldg.  
FRED DROEGE, JR.....104 Neave Bldg.  
JAMES W. FARRELL.....1142 Herschel Ave.  
JOHN H. FREY.....1334 Herschel Ave.  
JAMES J. GROGAN.....S. W. Cor. 5th and Main Sts.  
JOSEPH B. HALL.....35 E. 7th St.  
ALBERT J. MAYER.....1515 1st Natl. Bk. Bldg.  
P. LINCOLN MITCHELL.....S. W. Cor. 5th and Main Sts.  
RUSSELL PRICE.....S. W. Cor. 5th and Main Sts.  
WALTER S. SCHMIDT.....S. W. Cor. 5th and Main Sts.  
LEWIS R. SMITH.....409 American Bldg.  
JOHN B. SPILKER.....104 Neave Bldg.  
L. F. STEELE.....209 W. 7th St.
- Cleveland**  
TALMAGE D. AUBLE.....15509 Madison Ave.  
ROBERT F. BERWALD.....409 American Bldg.  
BEN B. BEYER.....1425 Williamson Bldg.  
RAYMOND T. CRAGIN.....825 Natl. City Bk. Bldg.  
WALTER R. GRANGER.....310 Hippodrome Bldg.  
JOSEPH J. HAAS.....200 Marshall Bldg.  
JOSEPH LARONGE.....600 Union Trust Bldg.  
EDWIN H. McINTOSH.....1029 Society for Savings Bldg.  
WARREN L. MORRIS.....420 Natl. City Bank Bldg.  
E. L. OSTENDORF.....1105 Chester Ave.  
CARL A. PALMER.....850 Euclid Ave.  
MAX J. RUDOLPH.....1105 Chester Ave.  
CARLTON SCHULTZ.....1223 Schofield Bldg.  
ALEXANDER S. TAYLOR.....1930 Union Trust Bldg.  
V. C. TAYLOR, II.....1930 Union Trust Bldg.  
WM. J. VAN AKEN.....1715 Euclid Ave.
- Cuyahoga Falls**  
FRED E. SMITH.....608 Broad Blvd.
- Geneva**  
J. EARL MILLER.....Miller Bldg.
- Medina**  
C. L. BAKER.....R. D. 7
- Springfield**  
HARRY S. KISSELL.....927 1st Natl. Bk. Bldg.
- Toledo**  
CLAUDE A. CAMPBELL.....707 Ohio Bank Bldg.  
GEO. F. CROSBY.....609 Madison Ave.  
HOWARD ETCHEN.....725 Adams St.
- Bethlehem** **PENNSYLVANIA**  
WM. C. BADER.....214 Odd Fellows Bldg.
- Harrisburg**  
EVAN J. MILLER.....213 Locust St.
- Lancaster**  
HARRY W. BUTTS.....24 E. Orange St.
- Lansdowne**  
W. RAYMOND EVANS.....19 N. Lansdowne Ave.
- Philadelphia**  
PHILIP N. ARNOLD.....1324 Walnut St.  
BOYD T. BARNARD.....123 S. Broad St.  
E. L. CARLSON, The Fidelity Mutual Life Ins. Co.  
.....The Parkway at Fairmount Ave.  
C. HARRIS COLEHOWER.....5942 Chestnut St.  
FRANK P. FELTON, JR.....37 S. 16th St.  
SAMUEL T. HALL.....1500 Locust St.  
C. HARRY JOHNSON.....1307 Packard Bldg.  
SAMUEL C. KANE.....511 Land Title Bldg.  
S. CRAIG KANE, JR.....511 Land Title Bldg.  
MAURICE R. MASSEY.....S. E. 13th and Green Sts.  
WILLIAM I. MIRKIL.....1500 Walnut St.  
ROBERT J. NASH.....1214 Locust St.  
RICHARD J. SELTZER.....15th & Locust Sts.  
J. WILLISON SMITH.....109 S. Broad St.  
MARTIN STOTZ.....516 Land Title Bldg.  
AMBROSE J. WINDER.....1420 Walnut St.
- Pittsburgh**  
J. W. CREE, JR.....211 Fourth Ave.
- Wilkes Barre**  
C. A. LEIGHTON.....702 Deposit & Savings Bk. Bldg.  
EDWARD L. LEWTH.....428 Miners Bk. Bldg.
- Providence** **RHODE ISLAND**  
HAL FORRESTER COOMBS.....211 Waterman St.  
JAMES DEVINE.....801 New Industrial Tr. Bldg.
- Nashville** **TENNESSEE**  
J. W. DENIS.....209 Warner Bldg.  
J. W. GRAHAM.....411 Nichol Bldg.
- Dallas** **TEXAS**  
HENRY S. MILLER.....405 Southland Life Bldg.
- Houston**  
W. G. BURCHFIELD.....803 2nd Natl. Bk. Bldg.
- San Antonio**  
R. W. PATTON.....614 Travis Bldg.
- Salt Lake City** **UTAH**  
EDWARD M. ASHTON.....302 Kearns Bldg.
- Alexandria** **VIRGINIA**  
CARROLL WRIGHT.....Barcroft
- Richmond**  
JOHN W. BATES.....723 E. Main St.  
HENRY S. RAAB, Raab & Co.....710 E. Main St.  
JOHN SLOAN.....18 N. 6th St.  
J. GUTHRIE SMITH.....924 E. Main St.  
MORTON G. THALHIMER.....1013 E. Main St.
- Seattle** **WASHINGTON**  
WM. D. BURKHEIMER.....4516 Stoneway  
WM. A. EASTMAN.....414 University St.  
J. ARTHUR YOUNGER.....1233 E. 88th St.
- Walla Walla**  
C. C. CONNER.....First National Bank
- Bluefield** **WEST VIRGINIA**  
S. W. FLORENCE.....309 Peery Bldg.  
T. O'J. WILSON.....499 Peery Bldg.
- Charleston**  
CHARLES UHRIG.....Box 1019, Charleston Natl. Bk. Bldg.
- Madison** **WISCONSIN**  
HENRY H. BUSH, Stanley C. Hanks Co.....311 State St.
- Milwaukee**  
K. LEE HYDER.....525 E. Michigan St.
- London, Ontario** **CANADA**  
BERT WEIR.....156½ Dundas St.
- Toronto, Ontario**  
CYRIL R. DeMARIA.....372 Bay St.  
FRANK McLAUGHLIN.....34 King St., W.
- Limited Members**  
**DISTRICT OF COLUMBIA**  
**Washington**  
GEORGE P. WILLIAMS.....7512 New Post Office Bldg.

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